

ROSBANK Group

**Consolidated
Financial Statements**
Year Ended 31 December 2015

ROSBANK GROUP

TABLE OF CONTENTS

| | Page |
|---|------|
| STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015..... | 1 |
| INDEPENDENT AUDITOR'S REPORT | 2-3 |
| CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015: | |
| Consolidated statement of financial position | 4 |
| Consolidated statement of profit or loss | 5 |
| Consolidated statement of comprehensive income..... | 6 |
| Consolidated statement of changes in equity..... | 7 |
| Consolidated statement of cash flows | 8 |
| Notes to the consolidated financial statements | 9-89 |
| 1. Organization | 9 |
| 2. Going concern | 11 |
| 3. Basis of presentation..... | 11 |
| 4. Significant accounting policies | 12 |
| 5. Application of new and revised International Financial Reporting Standards (IFRS) | 35 |
| 6. Change of prior period balances | 38 |
| 7. Cash and balances with the Central Bank of the Russian Federation..... | 41 |
| 8. Financial assets at fair value through profit or loss | 41 |
| 9. Due from banks | 42 |
| 10. Derivative financial instruments | 42 |
| 11. Loans to customers | 43 |
| 12. Investments available-for-sale | 46 |
| 13. Investments held to maturity | 47 |
| 14. Property and equipment and intangible assets..... | 48 |
| 15. Other assets | 49 |
| 16. Financial liabilities at fair value through profit or loss..... | 50 |
| 17. Due to the Central Bank of the Russian Federation | 50 |
| 18. Due to banks | 50 |
| 19. Customer accounts | 51 |
| 20. Debt securities issued | 51 |
| 21. Other liabilities | 52 |
| 22. Subordinated debt | 53 |
| 23. Share capital | 53 |
| 24. Net interest income before provision for impairment losses on interest bearing assets..... | 54 |
| 25. Allowance for impairment losses and other provisions | 55 |
| 26. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards | 56 |
| 27. Net gain/(loss) on foreign exchange operations | 56 |
| 28. Net gain/(loss) on precious metals operations | 56 |
| 29. Fee and commission income and expense..... | 57 |
| 30. Other income..... | 57 |
| 31. Operating expenses | 57 |
| 32. Income tax..... | 58 |
| 33. Earnings per share attributable to equity holders of the parent | 60 |
| 34. Commitments and contingencies | 60 |
| 35. Transactions with related parties | 63 |
| 36. Fair value of financial instruments..... | 66 |
| 37. Offsetting financial assets and liabilities..... | 69 |
| 38. Regulatory matters | 70 |
| 39. Capital risk management..... | 70 |
| 40. Segment reporting..... | 71 |
| 41. Risk management policies | 74 |
| 42. Subsequent events..... | 89 |

ROSBANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC ROSBANK and its subsidiaries (the "Group") as at 31 December 2015, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian Federation ("RF") legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were authorized for issue on 19 April 2016 by the Management Board of PJSC ROSBANK.

On behalf of the Board:


Chairman of the Management Board

19 April 2016
Moscow




Deputy Chairman
of the Management Board

19 April 2016
Moscow

Independent auditor's report

To the shareholders and the Board of Directors of
PJSC ROSBANK

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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



Совершенство бизнеса,
улучшаем мир

Opinion

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

Other matters

The consolidated financial statements of PJSC ROSBANK and its subsidiaries for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 10 April 2015.

Ernst & Young LLC

19 April 2016

Moscow, Russia

ROSBANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015 (in millions of Russian Roubles)

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and balances with the Central Bank of the Russian Federation | 7 | 103,225 | 78,230 |
| Financial assets at fair value through profit or loss | 6, 8, 10, 35 | 56,968 | 153,733 |
| Due from banks | 9, 35 | 92,867 | 106,172 |
| Loans to customers | 6, 11, 35 | 634,534 | 676,889 |
| Investments available-for-sale | 12, 35 | 5,683 | 4,993 |
| Investments held to maturity | 13 | 79,582 | 65,318 |
| Property and equipment | 14 | 20,105 | 23,897 |
| Intangible assets | 14 | 2,144 | 1,405 |
| Current income tax assets | | 435 | 1,550 |
| Deferred income tax assets | 6, 32 | 3,363 | 2,092 |
| Other assets | 15, 35 | 12,273 | 11,869 |
| Total assets | | 1,011,179 | 1,126,148 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES: | | | |
| Financial liabilities at fair value through profit or loss | 6, 10, 16, 35 | 54,860 | 125,428 |
| Due to the Central Bank of the Russian Federation | 17 | 18,861 | 44,027 |
| Due to banks | 18, 35 | 68,684 | 134,894 |
| Customer accounts | 19, 35 | 516,707 | 485,676 |
| Debt securities issued | 20 | 159,795 | 146,049 |
| Other provisions | 6, 25 | 1,315 | 1,289 |
| Current income tax liabilities | | 120 | 117 |
| Deferred income tax liabilities | 6, 32 | 1,548 | 919 |
| Other liabilities | 21, 35 | 10,507 | 11,662 |
| Subordinated debt | 22, 35 | 58,281 | 46,443 |
| Total liabilities | | 890,678 | 996,504 |
| EQUITY: | | | |
| Share capital | 23 | 17,587 | 17,587 |
| Share premium | 23 | 59,707 | 59,707 |
| Cumulative translation reserve | | 2,771 | 1,982 |
| Property and equipment revaluation reserve | 6 | 6,834 | 8,346 |
| Investments available-for-sale fair value reserve | | (1,616) | (2,176) |
| Cash flow hedge | | (889) | (677) |
| Retained earnings | 6 | 36,107 | 44,875 |
| Total equity | | 120,501 | 129,644 |
| TOTAL LIABILITIES AND EQUITY | | 1,011,179 | 1,126,148 |

On behalf of the Board:

Chairman of the Management Board

19 April 2016
Moscow



Deputy Chairman
of the Management Board

19 April 2016
Moscow

The notes on pages 9-89 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

(in millions of Russian Roubles, except for earnings per share which are in Roubles)

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|--------|-----------------------------------|-----------------------------------|
| Interest income | 24, 35 | 93,459 | 89,922 |
| Interest expense | 24, 35 | (56,130) | (41,522) |
| Net interest income before provision for impairment losses on interest bearing assets | | 37,329 | 48,400 |
| Provision for impairment losses on interest bearing assets | 25, 35 | (21,107) | (17,989) |
| Net interest income | | 16,222 | 30,411 |
| Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards | 26, 35 | (1,873) | (1,546) |
| Net gain/(loss) on foreign exchange operations | 27 | 1,525 | (165) |
| Net gain/(loss) on precious metals operations | 28 | (152) | (337) |
| Fee and commission income | 29, 35 | 12,098 | 13,945 |
| Fee and commission expense | 29, 35 | (2,565) | (2,198) |
| Other provisions | 25 | (791) | (394) |
| Dividend income | | 46 | 290 |
| Other income | 30, 35 | 1,196 | 1,250 |
| Net non-interest income | | 9,484 | 10,845 |
| Operating income | | 25,706 | 41,256 |
| Operating expenses | 31, 35 | (35,135) | (36,199) |
| Other non-operating income | | 229 | – |
| Profit/(loss) before income tax | | (9,200) | 5,057 |
| Income tax credit/(expense) | 32 | (82) | (1,874) |
| Net profit/(loss) for the year | | (9,282) | 3,183 |
| EARNINGS PER SHARE | | | |
| Basic and diluted (in RUB) | 33 | (5.98) | 2.05 |

On behalf of the Board:


Chairman of the Management Board

19 April 2016
Moscow




Deputy Chairman
of the Management Board

19 April 2016
Moscow

The notes on pages 9-89 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in millions of Russian Rubles)

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|-------|-----------------------------------|-----------------------------------|
| Net profit/(loss) for the year | | (9,282) | 3,183 |
| Other comprehensive income/(expense) | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Net gain/(loss) resulting on revaluation of property | | (1,248) | – |
| Income tax | | 250 | – |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | 789 | 1,003 |
| Cash flow hedge | | (276) | (824) |
| Income tax on cash flow hedge | | 64 | 158 |
| Net profit/(loss) resulting on revaluation of available-for-sale financial assets during the year | | 467 | (3,386) |
| Amounts recycled to profit and loss relating to available-for-sale financial assets | | 233 | 107 |
| Income tax on revaluation of available-for-sale financial assets during the year | | (140) | 656 |
| Other comprehensive income/(expense) after income tax | | 139 | (2,286) |
| Total comprehensive income/(expense) | | (9,143) | 897 |

On behalf of the Board:


Chairman of the Management Board

19 April 2016
Moscow




Deputy Chairman
of the Management Board

19 April 2016
Moscow

The notes on pages 9-89 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015 (in millions of Russian Roubles)

| | Notes | Share capital | Share premium | Cumulative translation reserve | Property and equipment revaluation reserve | Investments available-for-sale fair value reserve | Cash flow hedge | Retained earnings | Total equity |
|---|-------|---------------|---------------|--------------------------------|--|---|-----------------|-------------------|----------------|
| 31 December 2013 | 6 | 17,587 | 59,707 | 979 | 8,834 | 447 | (11) | 41,204 | 128,747 |
| Net profit for the year | | – | – | – | – | – | – | 3,183 | 3,183 |
| Other comprehensive income/(expense) for the year | | – | – | 1,003 | – | (2,623) | (666) | – | (2,286) |
| Total comprehensive income/(expense) for the year | | – | – | 1,003 | – | (2,623) | (666) | 3,183 | 897 |
| Property and equipment disposal (net of deferred tax of RUR 122 millions) | | – | – | – | (488) | – | – | 488 | – |
| 31 December 2014 | 6 | 17,587 | 59,707 | 1,982 | 8,346 | (2,176) | (677) | 44,875 | 129,644 |
| Net loss for the year | | – | – | – | – | – | – | (9,282) | (9,282) |
| Other comprehensive income/(expense) for the year | | – | – | 789 | (998) | 560 | (212) | – | 139 |
| Total comprehensive income/(expense) for the year | | – | – | 789 | (998) | 560 | (212) | (9,282) | (9,143) |
| Property and equipment disposal (net of deferred tax of RUR 129 millions) | | – | – | – | (514) | – | – | 514 | – |
| 31 December 2015 | | 17,587 | 59,707 | 2,771 | 6,834 | (1,616) | (889) | 36,107 | 120,501 |

On behalf of the Board:


Chairman of the Management Board

19 April 2016
Moscow

The notes on pages 9-89 form an integral part of these consolidated financial statements.


Deputy Chairman
of the Management Board

19 April 2016
Moscow



ROSBANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (in millions of Russian Roubles)

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|--|-------|-----------------------------------|-----------------------------------|
| Cash flows from operating activities: | | | |
| Interest received | | 92,736 | 93,551 |
| Interest paid | | (58,660) | (38,363) |
| Fees and commissions received | | 12,554 | 13,724 |
| Fees and commissions paid | | (2,625) | (2,198) |
| Receipts from/(payment for) financial assets at fair value through profit or loss | | (3,498) | (1,637) |
| Receipts from/(payment for) trading in foreign currencies | | 22,709 | (3,741) |
| Other operating income received | | 1,196 | 1,240 |
| Receipts from/(payment for) precious metals operations | | (99) | 50 |
| Administrative and other operating expenses paid | | (30,626) | (32,566) |
| Income tax received/(paid) | | 623 | (2,491) |
| Cash flows from/(used in) operating activities before changes in operating assets and liabilities | | 34,310 | 27,569 |
| Changes in operating assets and liabilities | | | |
| Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation | | 1,660 | (35) |
| Net (increase)/decrease in financial assets at fair value through profit or loss | | 10,818 | 25,824 |
| Net (increase)/decrease in due from banks | | (3,276) | 13,424 |
| Net (increase)/decrease in loans to customers | | 62,292 | (30,659) |
| Net (increase)/decrease in other assets | | (2,274) | (358) |
| Net increase/(decrease) in financial liabilities at fair value through profit or loss | | 1,366 | (1,097) |
| Net increase/(decrease) in due to the Central Bank of the Russian Federation | | (24,248) | 37,787 |
| Net increase/(decrease) in due to banks | | (74,527) | (69,619) |
| Net increase/(decrease) in customer accounts | | (16,629) | 19,453 |
| Net increase/(decrease) in debt securities issued, other than bonds issued | | (1,138) | (4,587) |
| Net increase/(decrease) in other liabilities | | (441) | 2,020 |
| Net increase/(decrease) in other liabilities on law cases | | (15) | (499) |
| Net cash from/(used in) operating activities | | (12,102) | 19,223 |
| Cash flows from investing activities | | | |
| Purchase of available for sale financial assets | | – | (5,453) |
| Proceeds from disposal and redemption of available for sale financial assets | | 104 | 748 |
| Proceeds from redemption of held to maturity financial assets | | 1,381 | – |
| Purchase of held to maturity financial assets | | (5,088) | – |
| Purchase of property and equipment | | (3,065) | (2,988) |
| Proceeds from disposal of property and equipment | | 817 | 694 |
| Proceeds from sale of subsidiaries net of cash disposed | | (2,550) | – |
| Dividend income received | | 46 | 290 |
| Net cash from/(used in) investing activities | | (8,355) | (6,709) |
| Cash flows from financing activities | | | |
| Redemption of bonds issued by the Group | 6 | (24,427) | (10,784) |
| Issue of bonds | 6 | 42,386 | 47,318 |
| Proceeds from sale of previously bought back bonds issued | 6 | 9,525 | 2,747 |
| Buy back of bonds issued | 6 | (13,108) | (4,815) |
| Net cash from/(used in) financing activities | | 14,376 | 34,466 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 9,538 | 24,556 |
| Net increase/(decrease) in cash and cash equivalents | | 3,457 | 71,536 |
| CASH AND CASH EQUIVALENTS, beginning of the year | 7 | 171,775 | 100,239 |
| CASH AND CASH EQUIVALENTS, end of the year | 7 | 175,232 | 171,775 |

On behalf of the Board:


Chairman of the Management Board

19 April 2016
Moscow




Deputy Chairman
of the Management Board

19 April 2016
Moscow

The notes on pages 9-89 form an integral part of these consolidated financial statements.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Organization

ROSBANK (initially named “Nezavisimost”) is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies, for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 the businesses of ROSBANK and Commercial Bank “MFK Bank”, specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia’s largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

Societe Generale became the owner of 20% minus 1 share of Rosbank in 2006. In February 2008 Societe Generale became the owner of Rosbank controlling stock interest by exercising the option for acquisition of 30% stocks. In March 2008 Societe Generale offered to buy the stakes of minority shareholders at 194.09 roubles per share. Having performed the buy-out Societe Generale raised its interest in Rosbank to 57.57%. On 23 March 2009 ROSBANK issued 26,665,928 shares by way of public subscription. The issue was bought by Societe Generale and PHARANCO HOLDINGS CO. LIMITED in the proportion 60.6786% and 39.3214%, respectively. On 27 May 2009 Societe Generale increased its share in Rosbank by 7% after the purchase of this share from PHARANCO HOLDINGS CO. LIMITED.

In February 2010, Societe Generale with the consent of other shareholders of Rosbank Group took the decision to reorganize the legal structure of its Russian subsidiaries in order to build a major financial group.

The first step was achieved in January 2011 with the acquisition of 100% of the share capital of Rusfinance and Delta Credit. The two companies kept acting as separate entities, Rusfinance being mainly dedicated to consumer credit and Delta Credit to mortgages.

The second step was achieved in July 2011 with the merger of the two universal banks ROSBANK and BSGV into a single and unified company ultimately operating under a single brand. Benefiting from their differentiated positioning on both corporate and retail segments, the new structure aims at improving its financial performance by increasing revenues through cross-selling strategy and developing synergies in order to reduce operational costs.

During 2013, Societe Generale further consolidated its positions in Russian market by acquiring in December 2013 an additional 10% stake in ROSBANK equity from VTB Group, increasing it up to 92.4%. As part of the agreement ROSBANK sold to VTB Group certain Russian assets: shares listed on Moscow Exchange as well as some loans and real-estate assets.

In April 2014 Societe Generale acquired further 7% of ROSBANK’s share capital from Interros Group, raising its stake to 99.4%, in line with its strategy of building up the Group’s stake in ROSBANK.

ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 34, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 December 2015 and 2014 ROSBANK had 9 and 14 branches respectively operating in the Russian Federation.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

ROSBANK (“the Bank”) is the parent company of a banking group (the “Group”) which consists of the following material enterprises as of 31 December 2015 and 2014:

| Name | Country of incorporation | Group’s ownership interest / voting rights, % | | Type of operations |
|---|--------------------------|---|------------------|--|
| | | 31 December 2015 | 31 December 2014 | |
| Delta Credit Bank JSC (previous name – Delta Credit Bank CJSC) | Russia | 100/100 | 100/100 | Banking |
| Rusfinance Bank LLC | Russia | 100/100 | 100/100 | Banking |
| Rusfinance LLC | Russia | 100/100 | 100/100 | Issue of loans to individuals |
| Red and Black Prime Russia MBS No.1 Limited LLC | Ireland | 0/100 | 0/100 | Issue of notes |
| BSGV Leasing LLC | Russia | Merged | 100/100 | Leasing |
| RB Factoring LLC | Russia | 100/100 | 100/100 | Factoring |
| Rosbank (Switzerland) SA | Switzerland | 100/100 | 100/100 | Banking |
| RosInvest SA | Luxembourg | Liquidated | 99.97/99.97 | Reorganization of UNEXIM Finance Company |
| Processing Company NICKEL LLC | Russia | Liquidated | 100/100 | Processing of card operations |
| RB LEASING LLC | Russia | 100/100 | 100/100 | Leasing |
| INKAHRAN OJSC | Russia | Sold | 100/100 | Cash collection services |
| ORS OJSC | Russia | 100/100 | 100/100 | Processing |
| AVTO LLC | Russia | 100/100 | 100/100 | Transportation services |
| RB Specialized Depository LLC (previous name – RB Securities LLC) | Russia | 100/100 | 100/100 | Operations with securities |
| Inkahran Service LLC | Russia | Sold | 99.60/100 | Transportation services |
| Valmont LLC | Russia | 100/100 | 100/100 | Asset holding company |
| RB Service LLC (previous name – RBS Avto LLC) | Russia | 100/100 | 100/100 | Financial services |

In addition to the above listed companies the Group controls a number of special purpose entities. The main activity of these special purpose entities is hard recovery process.

On 14 July 2010 the Group took decision to close its foreign subsidiary in Switzerland – Rosbank (Switzerland) SA. The liquidation process is subject to authorisation by Swiss banking authorities. The Group does not anticipate any substantial impact on its financial results nor its financial position as a result of the aforementioned liquidation.

In November 2015, the Group lost control over its subsidiaries INKAHRAN OJSC and Inkahran Service LLC as a result of sale of its investments in these companies to an unrelated third party. Financial result from this transaction was not significant.

In December 2015 BSGV Leasing LLC was merged with the Group’s subsidiary RB LEASING LLC.

In July 2015 RosInvest SA was liquidated.

In December 2015 Processing Company NICKEL LLC was liquidated.

As of 31 December 2015 and 2014, the following shareholders owned the issued shares of ROSBANK:

| Shareholder | 31 December 2015 | 31 December 2014 |
|-----------------------|------------------|------------------|
| | % | % |
| Societe Generale S.A. | 99.49 | 99.49 |
| Others | 0.51 | 0.51 |
| Total | 100.00 | 100.00 |

These consolidated financial statements were authorized for issue on 19 April 2016 by the Management Board of ROSBANK.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

3. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These consolidated financial statements are presented in millions of Russian roubles ("mRUB"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and certain land and buildings that are measured at revalued amounts according to International Accounting Standard 16 *Property, Plant and Equipment* ("IAS 16"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian rouble (RUB). The presentation currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million RUB, except when otherwise indicated.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation permitted by any IFRS, and as specifically disclosed in the accounting policies of the Group.

4. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of ROSBANK and entities controlled by ROSBANK (its subsidiaries). Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All significant intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated statement of profit or loss.

Business combinations involving entities or businesses under common control

For the purpose of accounting of business combinations involving entities or businesses under common control (excluded from the scope of IFRS 3 *Business Combinations*) the Group considers pooling of interest as the most appropriate method to be used. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and the control is not transitory.

The pooling of interest method assumed the following rules:

- Assets and liabilities of the combined entities are stated at their net book value;
- No new goodwill is recorded as a result of the business combination, but is adjusted against equity;
- The income statement is drawn up from the date of the business combination;
- Comparative data is not restated.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Recognition of income and expense

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of income – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated statement of profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Recognition of dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income

The Bank's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

Recognition of trustee (fiduciary) services income

Income is recognized as services are provided.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets at fair value through profit or loss. The fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated statement of profit or loss for the period. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss. The Group does not reclassify financial instruments in or out of this category while they are held (except the cases of reclassification in accordance with amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial instruments: Disclosure*).

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency, precious metals and securities.

Financial derivatives and hedge accounting

All financial derivatives are recognized at fair value in the consolidated statement of financial position as financial assets or financial liabilities. Changes in the fair value of financial derivatives, except those designated as cash flow hedges (see below), are recognized in the consolidated statement of profit or loss for the period.

Financial derivatives are divided into two categories:

(i) Trading financial derivatives

Derivative instruments are considered to be trading financial derivatives by default, unless they are designated as hedging instruments for accounting purposes. They are booked in the consolidated statement of financial position under *Financial assets or liabilities at fair value through profit or loss*. Changes in fair value are recorded in the consolidated statement of profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss*, except changes in fair value of forex forwards and swaps which are recorded in the consolidated statement of profit or loss under *Net gains and losses on foreign exchange operations*.

Changes in the fair value of financial derivatives involving counterparties which subsequently went into default are recorded under *Net gains and losses on financial instruments at fair value through profit or loss* until the termination date of these instruments. At this termination date, receivables and debts on these counterparties are recognized at fair value in the consolidated statement of financial position. Any further impairment on these receivables is recognized under *Provision for impairment losses* in the consolidated statement of profit or loss.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(ii) *Derivative hedging instruments*

To designate an instrument as a derivative hedging instrument, the Group must document the hedging relationship at the inception of the hedge. This documentation specifies the asset, liability, or future transaction hedged, the risk to be hedged, the type of financial derivative used and the valuation method applied to measure its effectiveness. The derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk, both when the hedge is first set up and throughout its life. Derivative hedging instruments are recognized in the consolidated statement of financial position under *Hedging instruments*.

Depending on the risk hedged, the Group designates the derivative as a fair value hedge, or a cash flow hedge.

Fair value hedge

In a fair value hedge, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported under *Net gains and losses on financial instruments at fair value through profit or loss*. As the hedging is highly effective, changes in the fair value of the hedged item are faithfully reflected in the fair value of the derivative hedging instrument. As regards interest rate derivatives, accrued interest income or expenses are booked in the consolidated statement of profit or loss under *Interest income and expense – Hedging derivatives* at the same time as the interest income or expense related to the hedged item.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value and the cumulative adjustments previously recognized under hedge accounting are amortised over its remaining life. Hedge accounting is discontinued automatically if the hedged item is sold before maturity or redeemed early.

Cash flow hedge

In a cash flow hedge, the effective portion of the changes in fair value of the hedging derivative instrument is recognized in a specific equity account, while the ineffective portion is recognized in the consolidated statement of profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss*.

Amounts directly recognized in equity under the cash flow hedge accounting are reclassified in *Interest income and expenses* in the consolidated statement of profit or loss at the same time as the cash flows being hedged. Accrued interest income or expense on hedging derivatives is booked to the consolidated statement of profit or loss under *Interest income and expenses – Hedging derivatives* at the same time as the interest income or expense related to the hedged item.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognized directly in equity are reclassified under *Interest income and expenses* in the consolidated statement of profit or loss over the periods where the interest margin is affected by cash flows arising from the hedged item.

If the forecast transaction is no longer expected to occur, unrealized gains and losses booked to other comprehensive income from the period when the hedge was effective are immediately reclassified from equity to profit or loss. A forecast transaction that is no longer highly probable may still be expected to occur.

If the hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates and quoted in an active market that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Group management considers that fair value can be reliably measured). The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Russian Federation, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to nature of the losses.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated statement of profit or loss.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation ("RF") and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater compared to recorded impairment.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

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

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

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Reclassification of financial assets

The Group has reclassified certain non-derivative financial assets out of AFS to HTM financial assets. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Any gain or loss previously booked as equity in respect of the securities transferred is amortised on the statement of profit or loss over the residual term to maturity, as an adjustment to the yield similar to the amortization of a premium.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Financial liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial liabilities at fair value through profit or loss. The fair value adjustment on financial liabilities at fair value through profit or loss is recognized in the consolidated statement of profit or loss for the period. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss.

Other financial liabilities

Other financial liabilities (including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, repurchase agreements, debt securities issued, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and term deposit accounts with the Central Bank of the Russian Federation and amounts due from credit institutions with original maturity within 90 days, which are free from contractual encumbrances.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets may be accounted by the Group under IAS 2 *Inventories*, IAS 40 *Investment Property*, IAS 16 *Property, Plant and Equipment*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or other applicable standard depending on the nature and intended use of such assets.

Property and equipment

Property and equipment, except land and buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property and equipment and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Depreciation on revalued buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

| | |
|-----------|--------------------------------|
| Buildings | 2% |
| Equipment | 20% |
| Others | Over useful life of 3-10 years |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net loss on operations with precious metals operations.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Operating taxes

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depository services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Share capital, share premium and treasury shares

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares are deducted directly from the Group's equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Period* ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by state pension fund. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Share based payments

For cash settled share based payments (compensation indexed on Societe Generale shares), the fair value of the amounts payable is booked to Operational expenses as an expense over the vesting period against a corresponding liability entry booked in the balance sheet under Other liabilities. This payables item is then remeasured at fair value against income until settled. For hedging derivatives, the effective portion of the change in their fair value is booked through profit or loss.

In November 2010, Rosbank Group adopted a share equivalent plan (the "Share Plan"), granting 40 Societe Generale Performance Shares equivalent ("the Performance Shares") to employees of Rosbank Group, subject to conditions of presence and performance. The purpose of the Share Plan is to offer to Rosbank Group employees a cash bonus payable in local currency equal in value to the performance shares received by employees of Societe Generale Group in other countries through its similar Share Plan launched at the same date. The beneficiaries are all employees and executive corporate officers who are part of Rosbank Group as of the date the Share Plan is adopted. The vesting conditions are as follows:

1. Vesting period:
 - (a) For the first tranche, concerning 16 Performance Shares equivalent, the vesting period expired on 31 March 2015;
 - (b) For the second tranche, concerning 24 Performance Shares equivalent, the vesting period will expire on 31 March 2016.

2. Vesting conditions:

The effective vesting of Performance Shares is subject to a continued employment condition as well as to performance conditions. The satisfaction of the continued employment and performance conditions will be reviewed and officially acknowledged at the end of each of the vesting periods.

The fair value of the payable amount is booked as operating expenses over the vesting period against a corresponding liability booked under other liabilities. As of 31 December 2015 and 2014, the total carrying amount of the corresponding liabilities amounted to RUB 971 million and RUB 1,087 million, respectively.

Accounting for the effects of hyperinflation

Russia

In accordance with IAS 29, economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since 1 January 2003 economy of the Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, were used to form the beginning balances as at 1 January 2003.

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see above for hedge accounting); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations, whose functional currency is not the currency of hyperinflationary economy, are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Rates of exchange and commodity prices

The exchange rates and commodity prices at period-end used by the Group in the preparation of the consolidated financial statements are as follows:

| | 31 December 2015 | 31 December 2014 |
|-------------------------|---------------------|---------------------|
| RUB/1 US Dollar | 72.8827 | 56.2584 |
| RUB/1 Euro | 79.6972 | 68.3427 |
| RUB/Gold (1 ounce) | 77,419.65 | 67,467.89 |
| RUB/Platinum (1 ounce) | 63,553.71 | 68,072.66 |
| RUB/Palladium (1 ounce) | 39,866.84 | 44,894.20 |
| RUB/Silver (1 ounce) | 1,007.24 | 898.45 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Available-for-sale reserve' which comprises changes in fair value of available-for-sale investments;
- 'Cash flow hedge reserve' which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- 'Revaluation reserve' which comprises effect of revaluation of property and equipment.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held to maturity financial assets

The Group management has reviewed the Group's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 13.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of profit or loss on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Property and equipment carried at revalued amounts

Certain buildings are measured at revalued amounts. The date of the latest appraisal was 31 December 2015. The next revaluation is preliminary scheduled as of 31 December 2017.

Recoverability of deferred tax assets

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Changes in accounting policies

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

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

The Group has applied the aggregation criteria in IFRS 8.12 in relation to the non-material sub-segments. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 40 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

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

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

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of 'Effective IFRSs' – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

5. Application of new and revised International Financial Reporting Standards (IFRS)

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material effect on the consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IFRS 9 Financial Instruments

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

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact on its equity due to adoption of IFRS 9 impairment requirements.

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

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

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

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

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

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

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities

Applying the Consolidation Exception

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

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

Annual improvements 2012-2014 Cycle

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

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

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

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

This amendment is not relevant to the Group, since the Group does not have defined benefit plans with contributions from employees or third parties.

IFRS 15 Revenue from Contracts with Customers

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

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

IFRS 16 Leases

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

6. Change of prior period balances

- 1) Netting of Financial assets at fair value through profit or loss against Financial liabilities at fair value through profit or loss has been made to the consolidated financial statements as at 31 December 2014.

| Item of statement of financial position | As previously reported 31 December 2014 mRUB | Amount offset mRUB | As revised 31 December 2014 mRUB |
|--|---|-----------------------------------|---|
| Financial assets at fair value through profit or loss | 158,075 | (4,342) | 153,733 |
| Financial liabilities at fair value through profit or loss | (129,770) | 4,342 | (125,428) |

- 2) Netting of deferred tax assets against deferred tax liabilities has been made to the consolidated financial statements as at 31 December 2014.

| Item of statement of financial position | As previously reported 31 December 2014 mRUB | Amount offset mRUB | As revised 31 December 2014 mRUB |
|--|---|-----------------------------------|---|
| Deferred income tax assets | 8,886 | (6,794) | 2,092 |
| Deferred income tax liabilities | (7,713) | 6,794 | (919) |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

- 3) The Group has amended opening balances for Property, plant and equipment revaluation reserve and Retained earnings in the consolidated statement of financial position to record effect of previously disposed items:

| Item of statement of financial position | As previously reported 31 December 2014 mRUB | Amount of adjustment mRUB | As revised 31 December 2014 mRUB |
|---|---|---------------------------------|---|
| Property, plant and equipment revaluation reserve | 9,362 | (1,016) | 8,346 |
| Retained earnings | 43,859 | 1,016 | 44,875 |

The Group has amended opening balances on consolidated statement of changes in equity for the year ended 31 December 2014 for Property, plant and equipment revaluation reserve and Retained earnings to record effect of previously disposed items:

| Item of statement of changes in equity | As previously reported mRUB | Amount of adjustment mRUB | As revised mRUB |
|---|--------------------------------|---------------------------------|--------------------|
| As at 31 December 2013 | | | |
| Property, plant and equipment revaluation reserve | 9,362 | (528) | 8,834 |
| Retained earnings | 40,676 | 528 | 41,204 |
| As at 31 December 2014 | | | |
| Property, plant and equipment revaluation reserve | 9,362 | (1,016) | 8,346 |
| Retained earnings | 43,859 | 1,016 | 44,875 |

- 4) The Group has amended balances for Loans to customers and Other provisions in the consolidated statement of financial position as at 31 December 2014 to provide better view of risk related to various balance sheet items:

| Item of statement of financial position | As previously reported 31 December 2014 mRUB | Amount of adjustment mRUB | As revised 31 December 2014 mRUB |
|---|---|---------------------------------|---|
| Loans to customers | 676,632 | 257 | 676,889 |
| Other provisions | (1,032) | (257) | (1,289) |

- 5) The Group has changed disclosure of cash flows from financing activities on bonds issued. The effect of changes on the consolidated statement of cash flows for the year ended 31 December 2014 is as follows:

| Item of statement of cash flows | As previously reported 31 December 2014 mRUB | Amount of reclassifica- tions mRUB | As revised 31 December 2014 mRUB |
|---|---|---|---|
| Redemption of bonds issued by the Group | (15,599) | 4,815 | (10,784) |
| Issue of bonds | 50,065 | (2,747) | 47,318 |
| Proceeds from sale of previously bought back bonds issued | | 2,747 | 2,747 |
| Buy back of bonds issued | | (4,815) | (4,815) |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

- 6) The Group has amended distribution between individually impaired and collectively assessed for impairment loans to customers in the Note 11 as at 31 December 2014:

| | As previously reported 31 December 2014 mRUB | Amount of adjustment mRUB | As revised 31 December 2014 mRUB |
|--|--|---------------------------------|---|
| Loans to customers individually determined to be impaired | | | |
| Original carrying amount | 34,818 | (9,712) | 25,106 |
| Impairment allowance | (22,231) | 550 | (21,681) |
| Revised carrying amount | 12,587 | (9,162) | 3,425 |
| Loans to customers collectively assessed for impairment, including: | | | |
| - loans assessed to be impaired | | | |
| Original carrying amount | 49,984 | 9,985 | 59,969 |
| Impairment allowance | (34,992) | (550) | (35,542) |
| Revised carrying amount | 14,992 | 9,435 | 24,427 |
| - loans assessed to be unimpaired | | | |
| Original carrying amount | 451,308 | (273) | 451,035 |
| Revised carrying amount | 451,308 | (273) | 451,035 |

- 7) The Group has amended classification of certain financial assets and liabilities between Level 2 and Level 3 of fair value hierarchy in the Note 36 as fair value measurements of these financial assets and liabilities were derived from valuation techniques that included significant unobservable inputs as at 31 December 2014:

| | As previously reported 31 December 2014 mRUB | Amount of adjustment mRUB | As revised 31 December 2014 mRUB |
|---------------------------|--|---------------------------------|---|
| Due from banks | | | |
| Level 2 | 106,172 | (101,280) | 4,892 |
| Level 3 | – | 101,280 | 101,280 |
| Loans to customers | | | |
| Level 2 | 676,889 | (676,889) | – |
| Level 3 | – | 676,889 | 676,889 |
| Subordinated debt | | | |
| Level 2 | 46,443 | (46,443) | – |
| Level 3 | – | 46,443 | 46,443 |
| Due to banks | | | |
| Level 2 | 134,894 | (134,894) | – |
| Level 3 | – | 134,894 | 134,894 |
| Customer accounts | | | |
| Level 2 | 485,676 | (485,676) | – |
| Level 3 | – | 485,676 | 485,676 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

7. Cash and balances with the Central Bank of the Russian Federation

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Cash | 26,942 | 36,591 |
| Balances with the Central Bank of the Russian Federation | 76,283 | 41,639 |
| Total cash and balances with the Central Bank of the Russian Federation | 103,225 | 78,230 |

As of 31 December 2015 and 2014 included in the balances with the Central Bank of the Russian Federation are RUB 3,899 million and RUB 5,575 million, respectively, which represent the minimum reserve deposits calculated as a percentage of customers accounts balance required by the Central Bank of the Russian Federation. The Group is required to maintain the reserve balances with Central Bank of the Russian Federation at all times.

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|-----------------------------|-----------------------------|
| Cash and balances with the Central Bank of the Russian Federation | 103,225 | 78,230 |
| Due from banks with original maturity within 90 days | 75,906 | 99,120 |
| | 179,131 | 177,350 |
| Less minimum reserve deposits | (3,899) | (5,575) |
| Total cash and cash equivalents | 175,232 | 171,775 |

8. Financial assets at fair value through profit or loss

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Debt securities | 3,528 | 13,792 |
| Derivative financial instruments (Note 10) | 53,440 | 139,941 |
| Total financial assets at fair value through profit or loss | 56,968 | 153,733 |

The debt securities included in financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

| | 31 December 2015 | | 31 December 2014 | |
|--|----------------------------|----------------|----------------------------|----------------|
| | Nominal interest rate % | Amount mRUB | Nominal interest rate % | Amount mRUB |
| Debt securities: | | | | |
| Debt securities of Russian banks | 11.3-11.9% | 64 | 8-12% | 7,993 |
| Promissory notes of Russian banks | – | – | 3.18-12.14% | 5,563 |
| Promissory notes of Russian companies | – | – | 12.14% | 122 |
| Debt securities of the Russian Federation | 6.0-14.42% | 1,738 | 7.0-8.5% | 112 |
| Debt securities of local authorities | – | – | 7.25% | 2 |
| Debt securities of Russian companies | 11.6-12.5% | 653 | – | – |
| Debt securities of foreign central governments | 0.50-1.25% | 1,073 | – | – |
| | | 3,528 | | 13,792 |

As at 31 December 2015 and 2014 there were no financial assets at fair value through profit or loss pledged.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

9. Due from banks

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|-----------------------------|-----------------------------|
| Demand deposits in banks | 19,218 | 51,192 |
| Term deposits in banks | 65,396 | 50,088 |
| Loans under reverse repurchase agreements | 8,253 | 4,892 |
| Total due from banks | 92,867 | 106,172 |

As of 31 December 2015 the Group had loans and advances to two banks totaling RUB 39,636 million, which individually exceeded 10% of the Group's equity. As of 31 December 2014 the Group had loans and advances to two banks totaling RUB 57,553 million which individually exceeded 10% of the Group's equity.

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 31 December 2015 and 2014 comprise:

| | 31 December 2015 mRUB | | 31 December 2014 mRUB | |
|--|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | Carrying value of loan | Fair value of collateral | Carrying value of loan | Fair value of collateral |
| Bonds of Russian companies | 6,165 | 8,685 | 2,302 | 2,848 |
| Bonds of the Russian Federation | 2,088 | 2,359 | 1,749 | 1,854 |
| Bonds of foreign central governments | – | – | 841 | 866 |
| Total loans under reverse repurchase agreements | 8,253 | 11,044 | 4,892 | 5,568 |

10. Derivative financial instruments

Derivative financial instruments comprise:

| | Nominal value | 31 December 2015 Fair value mRUB | | Nominal value | 31 December 2014 Fair value mRUB | |
|---|------------------|--|-----------------|------------------|--|------------------|
| | | Assets | Liabilities | | Assets | Liabilities |
| Derivative financial instruments: | | | | | | |
| Foreign exchange contracts | | | | | | |
| Swaps | 22,041 | 3,349 | (3,391) | 163,396 | 36,425 | (21,835) |
| Forwards | 13,558 | 354 | (1,137) | 9,846 | 757 | (1,725) |
| IRS/CIRS | 386,919 | 44,338 | (43,648) | 528,947 | 68,960 | (68,222) |
| Cash flow and NIFE hedge | 6,554 | 22 | (179) | 5,441 | 14 | (285) |
| Fair value hedge | 2,450 | 239 | – | 2,450 | 511 | – |
| Foreign exchange options | 45,874 | 1,108 | (1,109) | 125,346 | 14,384 | (14,471) |
| Total foreign exchange contracts | | 49,410 | (49,464) | | 121,051 | (106,538) |
| Contracts on precious metals and commodities | | | | | | |
| Forwards | 3,956 | 339 | (339) | 1,083 | 112 | (112) |
| Swaps | 612 | 1 | (1) | 671 | 4 | (4) |
| Options | 85,148 | 3,690 | (3,690) | 185,447 | 18,774 | (18,774) |
| Total contracts on precious metals and commodities | | 4,030 | (4,030) | | 18,890 | (18,890) |
| Total | | 53,440 | (53,494) | | 139,941 | (125,428) |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Cash Flow Hedge and Hedge of Net Investment in Foreign Entity (NIFE)

The Group's cash flow hedge is related to its exposure to the variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program for the total amount equivalent to 203,009 shares to be paid during 2016 subject to the satisfaction of certain underlying conditions.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

To hedge against the variability in the cash flows on financial liabilities due to the share price risk, the Group used forward contracts at a fixed price of EUR 42.1 per share. As such the Group minimizes the effect of changes in market prices for SG shares on its future cash flows.

Another part of the Cash flow hedge is related to the swap (hedging instrument), which enables the Group to protect itself against negative variations in future cash flows on the variable-rate loans to customers due to a fall in interest rates. This part of the Group's cash flow hedge is related to variable-rate loans to customers for the principal of RUB 2,932 million.

The Group's hedge of Net Investment in Foreign Entity is related to the variability of the net assets of its subsidiary (Rosbank (Switzerland) SA) nominated in CHF.

Fair Value Hedge

The Group's fair value hedge is related to its exposure to the variability in changes of fair value of available-for-sale securities for the nominal amount of RUB 2,500 million.

As of 31 December 2015 and as of 31 December 2014 the fair value of the assets arising from derivative financial instruments classified as hedging instruments is RUB 239 million and RUB 511 million, respectively.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 1,010 million as at 31 December 2015 and RUB 1,298 million as at 31 December 2014, respectively. Simultaneously the Group entered into interest rate swap contracts to compensate future cash flows to be paid on structural bonds issued. The fair value of interest rate swaps included in financial liabilities at fair value through profit and loss amounted to RUB 1,803 million as at 31 December 2015 and RUB 1,998 million as at 31 December 2014, respectively.

11. Loans to customers

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|--------------------------------------|--------------------------------------|
| Loans to legal entities | 266,338 | 242,267 |
| Loans to individuals | 418,100 | 484,924 |
| Net investments in finance lease | 11,699 | 6,921 |
| Account receivable from RF Government debtors on financed loans | 1,885 | – |
| Total loans to customers before impairment | 698,022 | 734,112 |
| Less allowance for impairment losses | (63,488) | (57,223) |
| Total loans to customers | 634,534 | 676,889 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Movements in allowances for impairment losses on loans to customers for the year ended 31 December 2015 and 2014 are disclosed in Note 25.

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|--------------------------------------|--------------------------------------|
| Analysis by sector: | | |
| Individuals | 418,100 | 484,924 |
| Manufacturing and engineering | 78,060 | 49,716 |
| Trade | 45,040 | 48,380 |
| Precious metals and diamond extraction and manufacturing | 26,455 | 7,838 |
| Oil and gas | 26,199 | 21,782 |
| Energy industry | 21,268 | 34,503 |
| Real estate and construction | 15,987 | 18,699 |
| Metallurgy | 14,194 | 10,189 |
| Transport | 12,752 | 13,725 |
| Defence industry | 11,383 | 14,471 |
| Finance | 5,921 | 7,186 |
| Government | 6,568 | 3,612 |
| Telecommunications, media and information technology | 4,288 | 8,963 |
| Other | 11,807 | 10,124 |
| | 698,022 | 734,112 |
| Less allowance for impairment losses | (63,488) | (57,223) |
| Total loans to customers | 634,534 | 676,889 |

As of 31 December 2015 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2014 the Group had no loans to any customer which individually exceeded 10% of the Group's equity.

As of 31 December 2015 and 2014 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

During the years ended 31 December 2015 and 2014 the Group received non-financial assets as a repayment on loans. As at 31 December 2015 and 2014 such assets in the amount of RUB 4,495 million and RUB 5,004 million, respectively are included in other assets (Note 15).

Group is running the car loan program using financing from RF Government, under which RF Government is financing interest income on car loans in the amount of 2/3 of CBR key rate. RF Government financing is accounted in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. As of 31 December 2015 the amount receivable from RF Government on the financed car loan program amounted to RUB 1,745 million.

In 2015 the Group participated in the RF Government program for mortgage lending supporting, under which the Group originated loans at decreased interest rate. Government grant receivable represents governments subsidy of the estimated interest income receivable due to the excess of the government interest rate over the contractual interest rate. As of 31 December 2015 the amount receivable from RF Government on the financed mortgage program amounted to RUB 140 million.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Loans to individuals comprise the following products:

| | 31 December 2015 | | |
|------------------------------------|------------------------------|--|----------------------------|
| | Gross amount mRUB | Less allowance for impairment losses mRUB | Net amount mRUB |
| Mortgage loans | 188,204 | (3,016) | 185,188 |
| Car loans | 113,079 | (16,462) | 96,617 |
| Consumer loans | 79,859 | (14,966) | 64,893 |
| Overdraft | 18,906 | (3,928) | 14,978 |
| Express-loans | 9,488 | (2,565) | 6,923 |
| Loans to VIP clients and employees | 3,588 | (2,005) | 1,583 |
| Loans to Individual entrepreneurs | 4,976 | (2,204) | 2,772 |
| | 418,100 | (45,146) | 372,954 |

| | 31 December 2014 | | |
|------------------------------------|------------------------------|--|----------------------------|
| | Gross amount mRUB | Less allowance for impairment losses mRUB | Net amount mRUB |
| Mortgage loans | 188,338 | (2,112) | 186,226 |
| Car loans | 146,623 | (13,213) | 133,410 |
| Consumer loans | 114,558 | (13,362) | 101,196 |
| Overdraft | 21,238 | (2,920) | 18,318 |
| Express-loans | 9,824 | (2,329) | 7,495 |
| Loans to VIP clients and employees | 4,343 | (1,655) | 2,688 |
| | 484,924 | (35,591) | 449,333 |

The table below summarizes an analysis of loans to customers by impairment:

| | Note | 31 December 2015 mRUB | | | 31 December 2014 mRUB | | |
|---|------|--------------------------------|------------------------------|--------------------|---|---|-------------------------------|
| | | Original carrying amount | Impair- ment allowance | Carrying amount | Revised Original carrying amount | Revised Impair- ment allowance | Revised Carrying amount |
| Loans to customers individually determined to be impaired | 6 | 34,134 | (17,414) | 16,720 | 25,106 | (21,681) | 3,425 |
| Loans to customers individually determined to be unimpaired | | 231,393 | – | 231,393 | 198,002 | – | 198,002 |
| Loans to customers collectively assessed for impairment, including: | | | | | | | |
| - loans assessed to be impaired | 6 | 77,944 | (46,074) | 31,870 | 59,969 | (35,542) | 24,427 |
| - loans assessed to be unimpaired | | 354,551 | – | 354,551 | 451,035 | – | 451,035 |
| Total | | 698,022 | (63,488) | 634,534 | 734,112 | (57,223) | 676,889 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The components of net investment in finance lease as of 31 December 2015 and 2014 are as follows:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Not later than one year | 4,779 | 3,294 |
| Later than 1 year and not later than 5 years | 12,368 | 5,079 |
| Minimum lease payments | 17,147 | 8,373 |
| Less: unearned finance income | (5,448) | (1,452) |
| Net investment in finance lease | 11,699 | 6,921 |
| Current portion | 3,038 | 2,576 |
| Long-term portion | 8,661 | 4,345 |
| Net investment in finance lease | 11,699 | 6,921 |

12. Investments available-for-sale

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|-----------------------------|-----------------------------|
| Debt securities | 5,551 | 4,855 |
| Equity investments | 132 | 138 |
| Total investments available-for-sale | 5,683 | 4,993 |

| | 31 December 2015 | | 31 December 2014 | |
|---------------------------------|----------------------------|----------------|----------------------------|----------------|
| | Nominal interest rate % | Amount mRUB | Nominal interest rate % | Amount mRUB |
| Debt securities: | | | | |
| Bonds of the Russian Federation | 6.5%-7.5% | 5,551 | 6.5%-7.5% | 4,753 |
| Bonds of Russian companies | - | - | 8.3% | 102 |
| | | 5,551 | | 4,855 |

| | 31 December 2015 Amount mRUB | 31 December 2014 Amount mRUB |
|--|---------------------------------------|---------------------------------------|
| Equity investments: | | |
| Shares and ADRs of Russian companies | 131 | 132 |
| Shares of international clearing companies | 1 | 6 |
| | 132 | 138 |

In March 2014 and December 2014 the Group reclassified investments available-for-sale to investments held to maturity to bring the accounting and presentation in accordance with the management intent.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

As at 31 December 2015, the amount of all financial assets that have been reclassified from investment securities available for sale and which were not yet sold or otherwise derecognized, were as follows:

| | Amount reclassified mRUB | Carrying values mRUB | Fair values mRUB | Gain/(Loss) recognized at other comprehensive income if the financial asset had not been reclassified mRUB | Undiscounted cash flows expected to be recovered mRUB | Effective interest rate (%) |
|---------------------------------|-----------------------------|-------------------------|---------------------|---|--|-----------------------------|
| Bonds of the Russian Federation | 29,713 | 30,259 | 28,564 | 2,670 | 41,813 | 7.2-8.3 |
| Eurobonds of Russian companies | 29,648 | 43,637 | 46,293 | 1,125 | 54,127 | 5.0-5.4 |
| | 59,361 | 73,896 | 74,857 | 3,795 | 95,940 | |

As at 31 December 2014, the amount of all financial assets that have been reclassified from investment securities available for sale and which were not yet sold or otherwise derecognized, were as follows:

| | Amount reclassified mRUB | Carrying values mRUB | Fair values mRUB | Gain/(Loss) recognized at other comprehensive income if the financial asset had not been reclassified mRUB | Undiscounted cash flows expected to be recovered mRUB | Effective interest rate (%) |
|---------------------------------|-----------------------------|-------------------------|---------------------|---|--|-----------------------------|
| Bonds of the Russian Federation | 29,713 | 30,162 | 23,570 | (8,073) | 45,485 | 7.2-8.3 |
| Eurobonds of Russian companies | 29,648 | 35,156 | 33,223 | (1,937) | 45,004 | 5.0-5.4 |
| | 59,361 | 65,318 | 56,793 | (10,010) | 90,489 | |

13. Investments held to maturity

| | 31 December 2015 | | 31 December 2014 | |
|---|------------------------------|---------------|------------------------------|---------------|
| | Nominal annual interest rate | Amount mRUB | Nominal annual interest rate | Amount mRUB |
| Eurobonds of the Russian Federation | 4.5-7.5% | 46,194 | 4.5-7.5% | 35,156 |
| Bonds of the Russian Federation | 6.9-7.6% | 30,259 | 6.9-7.6% | 30,162 |
| Eurobonds of Russian companies | 3.4-8.3% | 3,129 | | — |
| Total investments held to maturity | | 79,582 | | 65,318 |

As of 31 December 2014 investments held to maturity represent debt securities reclassified from available-for-sale category in March and December 2014 (Note 12).

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

14. Property and equipment and intangible assets

| | Land and buildings | Equipment | Intangible assets | Capital expenditure | Total |
|--|--------------------|--------------|-------------------|---------------------|---------------|
| At cost/ restated cost/ revalued amount | | | | | |
| 31 December 2013 | 20,562 | 8,626 | 3,199 | 685 | 33,072 |
| Additions | 101 | 347 | 261 | 2,279 | 2,988 |
| Disposals | (699) | (930) | (61) | (12) | (1,702) |
| Transfer | (42) | 1,554 | 340 | (1,852) | – |
| 31 December 2014 | 19,922 | 9,597 | 3,739 | 1,100 | 34,358 |
| Additions | – | 373 | 1,326 | 1,366 | 3,065 |
| Disposals | (673) | (770) | (226) | (159) | (1,828) |
| Revaluation | (2,482) | – | – | – | (2,482) |
| Disposals of subsidiaries | (195) | (777) | (2) | – | (974) |
| Transfer | 98 | 1,466 | 176 | (1,740) | – |
| 31 December 2015 | 16,670 | 9,889 | 5,013 | 567 | 32,139 |
| Accumulated depreciation and impairment | | | | | |
| 31 December 2013 | 118 | 5,740 | 1,863 | – | 7,721 |
| Charge for the period | 471 | 1,246 | 480 | – | 2,197 |
| Disposals | (6) | (838) | (8) | – | (852) |
| Recovery of impairment | – | (10) | – | – | (10) |
| Transfer | – | 1 | (1) | – | – |
| 31 December 2014 | 583 | 6,139 | 2,334 | – | 9,056 |
| Charge for the period | 462 | 1,332 | 733 | – | 2,527 |
| Disposals | (17) | (574) | (197) | – | (788) |
| Revaluation | (1,024) | – | – | – | (1,024) |
| Impairment loss | – | 621 | – | – | 621 |
| Recovery of impairment | – | (46) | – | – | (46) |
| Disposals of subsidiaries | (4) | (451) | (1) | – | (456) |
| 31 December 2015 | – | 7,021 | 2,869 | – | 9,890 |
| Net book value | | | | | |
| 31 December 2015 | 16,670 | 2,868 | 2,144 | 567 | 22,249 |
| 31 December 2014 | 19,339 | 3,458 | 1,405 | 1,100 | 25,302 |

As at 31 December 2015 and 2014 property and equipment included fully depreciated equipment amounting to RUB 2,725 million and RUB 2,702 million, respectively.

During 2015 the Group performed a regular valuation of its land and buildings and booked revaluation impairment in other comprehensive income of RUB 1,248 million, and impairment loss of RUB 211 million and recovery of previously booked impairment loss of RUB 1 million.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

If buildings were stated at the historical cost, the amounts would be as follows:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--------------------------|-----------------------------|-----------------------------|
| Cost | 11,356 | 11,229 |
| Accumulated depreciation | (1,258) | (1,150) |
| Net book value | 10,098 | 10,079 |

15. Other assets

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|-----------------------------|-----------------------------|
| Other financial assets: | | |
| Agency operations | 223 | 586 |
| Miscellaneous receivables | 1,898 | 2,056 |
| | 2,121 | 2,642 |
| Less allowance for impairment losses | (20) | (52) |
| Total other financial assets | 2,101 | 2,590 |
| Other non-financial assets: | | |
| Non-current assets held for resale | 5,654 | 5,579 |
| Due from suppliers and other contractors | 2,865 | 2,765 |
| Taxes, other than income tax, recoverable | 1,048 | 862 |
| Inventory | 110 | 371 |
| Settlements on Plastic card operations | 952 | – |
| Accrued commission receivable | 411 | 370 |
| Advances to employees | 17 | 21 |
| Other | 1,183 | 1,592 |
| | 12,240 | 11,560 |
| Less allowance for impairment losses | (2,068) | (2,281) |
| Total other non-financial assets | 10,172 | 9,279 |
| Total other assets | 12,273 | 11,869 |

As at 31 December 2015 and 2014 miscellaneous receivables mainly consist of due from clients for banking services.

Movement of allowance for impairment losses on other assets for the years ended 31 December 2015 and 2014 is disclosed in Note 25.

Taxes recoverable are mainly represented by valued added taxes on leasing transactions.

As at 31 December 2015 and 2014 the non-current assets held for resale comprise:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Vehicles purchased by the Group for further resale | 1,159 | 575 |
| Buildings | 2,483 | 2,843 |
| Land | 590 | 498 |
| Other | 1,422 | 1,663 |
| Total non-current assets held for resale | 5,654 | 5,579 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Financial liabilities at fair value through profit or loss

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|---|-----------------------------|-----------------------------|
| Derivative financial instruments | 53,494 | 125,428 |
| Short position on securities purchased | 1,366 | – |
| Total financial liabilities at fair value through profit or loss | 54,860 | 125,428 |

Derivative financial instruments are disclosed in Note 10.

17. Due to the Central Bank of the Russian Federation

As of 31 December 2015 and 2014 due to the Central Bank of the Russian Federation consisted of the following:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Term deposits | 18,861 | 44,027 |
| Total due to the Central Bank of the Russian Federation | 18,861 | 44,027 |

As of 31 December 2015 and 2014 included in term deposits are RUB 500 million and RUB 19,500 million, respectively, secured with guarantees from Russian banks.

18. Due to banks

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|-----------------------------------|-----------------------------|-----------------------------|
| Time deposits | 33,760 | 83,222 |
| Demand accounts | 33,980 | 51,672 |
| Loans under repurchase agreements | 944 | – |
| Total due to banks | 68,684 | 134,894 |

The Group is obligated to comply with financial covenants in relation to certain balances deposits by banks disclosed above. These covenants include various financial performance ratios. As of 31 December 2015 and 2014 the Group has not breached any of these covenants.

As at 31 December 2015 and 2014 included in due to banks are RUB 24,248 million and RUB 60,824 million (20% and 45% of total balances due to banks), respectively, that were due to three and two banks respectively, which represents a significant concentration.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2015 comprise:

| | 31 December 2015 | |
|---------------------------------|----------------------------|-----------------------------|
| | Carrying value of loans | Fair value of collateral |
| Bonds of the Russian Federation | 944 | 953 |
| Total | 944 | 953 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Customer accounts

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--------------------------------|-----------------------------|-----------------------------|
| Corporate | | |
| Time deposits | 175,804 | 243,909 |
| Repayable on demand | 140,454 | 71,597 |
| Total corporate | 316,258 | 315,506 |
| Individuals | | |
| Time deposits | 157,078 | 132,568 |
| Repayable on demand | 43,371 | 37,602 |
| Total individuals | 200,449 | 170,170 |
| Total customer accounts | 516,707 | 485,676 |

As of 31 December 2015 and 2014 customer accounts amounting to RUB 229 million and RUB 273 million, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2015 and 2014 customer accounts amounting to RUB 77 million and RUB 109 million, respectively, were held as security against guarantees issued (Note 34).

| Analysis by economic sector/customer type: | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Individuals | 200,449 | 170,170 |
| Finance | 114,832 | 132,381 |
| Manufacturing and engineering | 41,685 | 18,237 |
| Oil and gas | 31,688 | 24,827 |
| Precious metals and diamond extraction and manufacturing | 28,699 | 6,989 |
| Trade | 20,144 | 31,374 |
| Real estate and construction | 17,231 | 22,731 |
| Metallurgy | 14,766 | 35,800 |
| Services | 14,529 | 13,957 |
| Telecommunications, media and information technology | 10,256 | 8,152 |
| Transport | 8,885 | 9,283 |
| Energy industry | 1,426 | 2,078 |
| Defence industry | 214 | 169 |
| Other | 11,903 | 9,528 |
| Total customer accounts | 516,707 | 485,676 |

20. Debt securities issued

| | Annual coupon rates % | 31 December 2015 | Annual coupon rates % | 31 December 2014 |
|---|-----------------------------|---------------------|-----------------------------|---------------------|
| Bonds of Delta Credit Bank due in 2015-2025 | 8.40%-12.50% | 73,454 | 8.25%-12.00% | 55,276 |
| Bonds of Rosbank due in 2015-2025 | 8.55%-11.80% | 40,988 | 8.55%-11% | 41,154 |
| Bonds of Rusfinance Bank due in 2015-2020 | 8.30%-13.90% | 29,193 | 8.05%-11.7% | 30,963 |
| Exchange structural bonds of Rosbank due in 2015-2025 | 9.31%-14.32% | 13,750 | 7.75%-11.75% | 15,155 |
| Discount bearing promissory notes | 0.00%-11.89% | 2,394 | 0.00%-11.46% | 2,345 |
| Mortgage backed floating rate notes | – | – | 1.22%-3.52% | 1,155 |
| Other instruments | 0.00% | 16 | 0.00% | 1 |
| Total debt securities issued | | 159,795 | | 146,049 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

During the period January-December 2015 new bonds were issued:

| Issuer | Issue Date | Maturity Date | Debt Volume, mRUR | Annual coupon rate, % |
|-------------------|------------|---------------|----------------------|--------------------------|
| Rosbank | 26.02.2015 | 26.02.2025 | 650 | 14.3 |
| Rosbank | 22.09.2015 | 29.09.2025 | 10,000 | 11.8 |
| Delta Credit Bank | 04.02.2015 | 04.02.2018 | 5,000 | 8.5 |
| Delta Credit Bank | 28.07.2015 | 28.07.2025 | 6,000 | 12.1 |
| Delta Credit Bank | 30.09.2015 | 30.09.2025 | 5,000 | 12.5 |
| Delta Credit Bank | 20.10.2015 | 20.10.2025 | 5,000 | 12.4 |
| Delta Credit Bank | 30.10.2015 | 30.10.2025 | 5,000 | 12.0 |
| Rusfinance Bank | 30.06.2015 | 30.06.2020 | 4,000 | 12.0 |
| Rusfinance Bank | 29.09.2015 | 29.09.2020 | 4,000 | 12.1 |
| Rusfinance Bank | 24.11.2015 | 24.11.2020 | 3,000 | 11.8 |

During the period January-December 2015 bonds were redeemed:

| Issuer | Issue Date | Maturity Date | Debt Volume, mRUR | Annual coupon rate, % |
|-------------------|------------|---------------|----------------------|--------------------------|
| Rosbank | 11.07.2013 | 11.01.2015 | 1,055 | 7.8 |
| Rosbank | 20.12.2013 | 03.07.2015 | 1,000 | 7.9 |
| Rosbank | 12.09.2012 | 12.09.2015 | 10,000 | 11.0 |
| Delta Credit Bank | 07.08.2012 | 07.08.2015 | 4,000 | 8.3 |
| Rusfinancebank | 06.03.2012 | 06.03.2015 | 1,485 | 8.1 |
| Rusfinancebank | 02.11.2012 | 02.11.2015 | 1,632 | 11.6 |
| Rusfinancebank | 17.11.2010 | 11.11.2015 | 790 | 11.6 |
| Rusfinancebank | 16.11.2010 | 10.11.2015 | 760 | 11.6 |
| Rusfinancebank | 21.09.2010 | 15.09.2015 | 1,914 | 8.2 |
| Rusfinancebank | 20.09.2010 | 14.09.2015 | 1,791 | 8.2 |

Changes in the balances for the year ended 31 December 2015, were also due to a partly buyback of the bonds and operations with the bonds issued by its subsidiaries.

21. Other liabilities

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Other financial liabilities: | | |
| Accrued bonuses and salary | 3,683 | 2,873 |
| Accrued vacation payable | 1,131 | 1,118 |
| Suspense amounts | 14 | 1,529 |
| Settlements on other operations | 3,679 | 2,754 |
| Total other financial liabilities | 8,507 | 8,274 |
| Other non-financial liabilities: | | |
| Advances received from clients | 272 | 1,168 |
| Taxes, other than income tax, payable | 775 | 803 |
| Deposit insurance charge liability | 178 | 279 |
| Creditors on other operations | 558 | 696 |
| Other | 217 | 442 |
| Total other non-financial liabilities | 2,000 | 3,388 |
| Total other liabilities | 10,507 | 11,662 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22. Subordinated debt

| | Currency | Maturity year | Interest rate % | 31 December 2015 | 31 December 2014 |
|--------------------------------|----------|---------------|-----------------|------------------|------------------|
| Societe Generale S.A. | USD | 2020-2023 | 6.5%-9.3% | 43,409 | 33,495 |
| Societe Generale S.A. | RUB | 2016-2017 | 8.0%-11.3% | 4,927 | 4,927 |
| GENEBANQUE S.A. | USD | 2022 | 6.6% | 5,957 | 4,598 |
| Societe Generale S.A. | EUR | 2020 | 8% | 3,988 | 3,423 |
| Total subordinated debt | | | | 58,281 | 46,443 |

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

23. Share capital

As of 31 December 2015 and 2014 the nominal share capital totaling RUB 17,587 million issued and fully paid comprised 1,551,401,853 ordinary shares with par value of RUB 10 each. All shares are ranked equally and carry one vote. The hyperinflation effect has been recorded in the amount of RUB 2,073 million.

As of 31 December 2015 and 2014 share premium totaling RUB 59,707 million represents an excess of contributions received in share capital over the nominal value of shares issued.

As at 31 December 2015 and 2014 the Bank's share capital comprised the following number of shares of RUB 10 each:

| | Share capital authorized | Share capital authorized but not issued | Share capital repurchased | Share capital issued and paid in |
|---------------------------|--------------------------|---|---------------------------|----------------------------------|
| Number of ordinary shares | 1,846,461,466 | 295,059,613 | – | 1,551,401,853 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

24. Net interest income before provision for impairment losses on interest bearing assets

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|--|---|---|
| Interest income comprises: | | |
| Interest income on financial assets recorded at amortized cost | 92,319 | 86,350 |
| Interest income on financial assets recorded at fair value | 1,140 | 3,572 |
| Total interest income | 93,459 | 89,922 |
| Interest income on financial assets recorded at amortized cost comprises: | | |
| Interest income on unimpaired financial assets | 90,816 | 81,360 |
| Interest income on impaired financial assets | 1,503 | 4,990 |
| Total interest income on financial assets recorded at amortized cost | 92,319 | 86,350 |
| Interest income on financial assets recorded at amortized cost comprises: | | |
| Interest on loans to individuals | 61,547 | 65,418 |
| Interest on loans to corporate customers | 21,632 | 16,095 |
| Interest on due from banks | 5,151 | 3,048 |
| Interest on investments held to maturity | 3,989 | 1,789 |
| Total interest income on financial assets recorded at amortized cost | 92,319 | 86,350 |
| Interest income on financial assets recorded at fair value comprises: | | |
| Interest income on investments available-for-sale | 444 | 2,133 |
| Interest income on financial assets at fair value through profit and loss | 696 | 1,439 |
| Total interest income on financial assets recorded at fair value | 1,140 | 3,572 |
| Interest expense comprises: | | |
| Interest on financial liabilities recorded at amortized cost | 56,130 | 41,522 |
| Total interest expense | 56,130 | 41,522 |
| Interest expense on financial liabilities recorded at amortized cost comprise: | | |
| Interest on corporate customer accounts | 20,039 | 13,115 |
| Interest on debt securities issued | 13,590 | 10,601 |
| Interest on deposits from individuals | 11,156 | 6,715 |
| Interest on deposits from banks | 5,292 | 5,679 |
| Interest on subordinated debt | 3,789 | 2,732 |
| Interest on deposits of the Central Bank of the Russian Federation | 2,264 | 2,680 |
| Total interest expense on financial liabilities recorded at amortized cost | 56,130 | 41,522 |
| Net interest income before provision for impairment losses on interest bearing assets | 37,329 | 48,400 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

25. Allowance for impairment losses and other provisions

The movements in allowance for impairment losses on interest-bearing assets were as follows:

| | Total mRUB |
|---------------------------------------|-----------------------|
| 31 December 2013 | 61,665 |
| Net allocations | 18,204 |
| Forex effect on provision revaluation | 3,544 |
| Sales and write-offs of loans | (26,190) |
| 31 December 2014 | 57,223 |
| Net allocations | 20,006 |
| Forex effect on provision revaluation | 2,108 |
| Sales and write-offs of loans | (15,849) |
| 31 December 2015 | 63,488 |

As of 31 December 2015 and 2014 allowance for impairment losses on interest-bearing assets includes provision only for loans to customers.

As of 31 December 2015 and 2014 the amount of provision for impairment losses on interest bearing assets in the consolidated statement of profit or loss comprises:

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|---|---|---|
| Net allocations | 20,006 | 18,204 |
| Recoveries of loans written off | (2) | (316) |
| Write offs not covered by provisions | 1,103 | 101 |
| Provision for impairment losses on interest bearing assets | 21,107 | 17,989 |

Write-offs not covered by provision in the amount of RUB 1,103 million and RUB Nil million as at 31 December 2015 and as at 31 December 2014, respectively, represent losses incurred by the Group from refinancing of US dollar denominated mortgage loans to individuals and accounted within "Provision for impairment losses on interest bearing assets" in consolidated statement of profit or loss.

The movements in other provisions were as follows:

| | Other assets mRUB | Provisions for financial guarantees issued, claims and other commitments mRUB | Total mRUB |
|---------------------------------------|----------------------------------|--|-----------------------|
| 31 December 2013 | 2,311 | 1,943 | 4,254 |
| Provision | 549 | (155) | 394 |
| Write-offs | (527) | (499) | (1,026) |
| 31 December 2014 | 2,333 | 1,289 | 3,622 |
| Provision | 750 | 41 | 791 |
| Write-offs | (995) | (49) | (1,044) |
| Forex effect on provision revaluation | - | 34 | 34 |
| 31 December 2015 | 2,088 | 1,315 | 3,403 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The information about other provision of the Group disclosed in Note 34.

Allowance for impairment losses on assets are deducted from the respective assets. Allowance for impairment losses on financial guarantees issued, claims and other commitments are presented in liabilities.

26. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards

Net loss on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards comprises:

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|--|---|---|
| Net gain/(loss) on operations with financial assets and liabilities held-for-trading comprise: | | |
| Realized gain/(loss) on trading operations | (290) | (199) |
| Unrealized revaluation of securities at fair value through profit or loss | 337 | (809) |
| Net gain/(loss) on operations with derivative financial instruments, except forex swaps and forwards | <u>(1,920)</u> | <u>(538)</u> |
| Total net gain/(loss) on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards | <u>(1,873)</u> | <u>(1,546)</u> |

27. Net gain/(loss) on foreign exchange operations

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|---|---|---|
| Net gain/(loss) on foreign exchange operations | 3,972 | 1,833 |
| Exchange differences | 241 | (25) |
| Effect of foreign currency swap instruments | <u>(2,688)</u> | <u>(1,973)</u> |
| Total net gain/(loss) on foreign exchange operations | <u>1,525</u> | <u>(165)</u> |

During years 2015 and 2014, the Bank used foreign currency swaps to manage its liquidity between currencies.

28. Net gain/(loss) on precious metals operations

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|--|---|---|
| Dealing, net | (99) | 47 |
| Translation differences, net | <u>(53)</u> | <u>(384)</u> |
| Total net gain/(loss) on precious metals operations | <u>(152)</u> | <u>(337)</u> |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

29. Fee and commission income and expense

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|---|---|---|
| Fee and commission income: | | |
| Plastic cards operations | 3,688 | 4,028 |
| Cash operations | 2,484 | 2,914 |
| Settlements | 2,118 | 2,281 |
| Agency operations | 1,767 | 2,949 |
| Documentary operations | 822 | 473 |
| Other operations | 1,219 | 1,300 |
| | <u>12,098</u> | <u>13,945</u> |
| Total fee and commission income | | |
| Fee and commission expense: | | |
| Plastic cards operations | 1,174 | 825 |
| Settlements | 639 | 573 |
| Documentary operations | 234 | 184 |
| Cash operations | 137 | 276 |
| Agency operations | 118 | 124 |
| Other operations | 263 | 216 |
| | <u>2,565</u> | <u>2,198</u> |
| Total fee and commission expense | | |

30. Other income

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|----------------------------------|---|---|
| Gain on sale of other assets | 415 | 547 |
| Rental income | 295 | 337 |
| Income from factoring operations | 33 | 28 |
| Debts written off | 52 | 27 |
| Other | 401 | 311 |
| | <u>1,196</u> | <u>1,250</u> |
| Total other income | | |

31. Operating expenses

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|---|---|---|
| Salary and bonuses | 15,875 | 15,753 |
| Unified social tax contribution | 3,693 | 3,369 |
| Operating lease expense | 2,821 | 3,379 |
| Depreciation charge on property and equipment | 2,527 | 2,197 |
| Repairs and maintenance expense | 1,682 | 2,791 |
| Professional services | 1,415 | 1,436 |
| Security | 463 | 1,026 |
| Communications | 903 | 897 |
| Transportation expenses | 975 | 852 |
| Deposit insurance charge | 736 | 649 |
| Advertising and marketing expenses | 612 | 321 |
| Other | 3,433 | 3,529 |
| | <u>35,135</u> | <u>36,199</u> |
| Total operating expenses | | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

32. Income tax

The Group measures and records its current income tax payable in its assets and liabilities in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2015 and 31 December 2014 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Based on semi-annual tax business planning exercise, the Group believes that it will generate sufficient taxable profits to recover the deferred tax assets recognized as of 31 December 2015 in the horizon of 10 years from the date the loss was recorded.

Temporary differences as of 31 December 2015 comprise:

| | Year ended | Origination and reversal of temporary differences | | | Year ended |
|--|--------------------------|---|-------------------------------|--------------------------|--------------------------|
| | 31 December 2014 mRUB | In the statement of profit or loss | In other comprehensive income | Disposal of a subsidiary | 31 December 2015 mRUB |
| Deferred tax assets in relation to: | | | | | |
| Loans and advances from banks and loans to customers | 3,333 | (543) | – | – | 2,790 |
| Other assets | 1,043 | (282) | – | – | 761 |
| Fair value through profit or loss financial assets | 267 | 32 | 67 | – | 366 |
| Available-for-sale financial assets | 649 | – | (180) | – | 469 |
| Other liabilities | 1,052 | 141 | – | – | 1,193 |
| Tax losses carried forward | 7,312 | (91) | – | – | 7,221 |
| Deferred tax assets | 13,656 | (743) | (113) | – | 12,800 |
| Deferred tax liabilities in relation to: | | | | | |
| Loans and advances from banks and loans to customers | (1,918) | (77) | – | – | (1,995) |
| Other assets | (100) | 55 | – | – | (45) |
| Fair value through profit or loss financial assets | (3,679) | 3,215 | (3) | – | (467) |
| Available-for-sale financial assets | (310) | 69 | 40 | – | (201) |
| Debt securities issued | (48) | 4 | – | – | (44) |
| Investments held to maturity | (4,170) | (1,349) | – | – | (5,519) |
| Property and equipment | (2,167) | (72) | 250 | 55 | (1,934) |
| Other liabilities | (91) | (126) | – | – | (217) |
| Deferred tax liabilities | (12,483) | 1,719 | 287 | 55 | (10,422) |
| Net deferred tax assets/(liabilities) | 1,173 | 976 | 174 | 55 | 2,378 |
| Deferred tax asset not recognized | – | (563) | – | – | (563) |
| Deferred tax assets/(liabilities) | 1,173 | 413 | 174 | 55 | 1,815 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Temporary differences as of 31 December 2014 comprise:

| | Year ended 31 December 2013 mRUB | Origination and reversal of temporary differences | | Year ended 31 December 2014 mRUB |
|--|---|--|---------------------------------------|---|
| | | In the statement of profit or loss | In other comprehen- sive income | |
| Deferred tax assets in relation to: | | | | |
| Loans and advances from banks and loans to customers | 3,103 | 230 | – | 3,333 |
| Other assets | 850 | 193 | – | 1,043 |
| Fair value through profit or loss financial assets | – | 109 | 158 | 267 |
| Available-for-sale financial assets | – | – | 649 | 649 |
| Other liabilities | 1,152 | (100) | – | 1,052 |
| Tax losses carried forward | 280 | 7,032 | – | 7,312 |
| Deferred tax assets | 5,385 | 7,464 | 807 | 13,656 |
| Deferred tax liabilities in relation to: | | | | |
| Loans and advances from banks and loans to customers | (1,707) | (211) | – | (1,918) |
| Other assets | (93) | (7) | – | (100) |
| Fair value through profit or loss financial assets | (145) | (3,534) | – | (3,679) |
| Available-for-sale financial assets | (380) | 63 | 7 | (310) |
| Debt securities issued | (29) | (19) | – | (48) |
| Investments held to maturity | – | (4,170) | – | (4,170) |
| Property and equipment | (2,199) | 32 | – | (2,167) |
| Other liabilities | (4) | (87) | – | (91) |
| Deferred tax liabilities | (4,557) | (7,933) | 7 | (12,483) |
| Net deferred tax assets/(liabilities) | 828 | (469) | 814 | 1,173 |
| Deferred tax asset not recognized | – | – | – | – |
| Deferred tax assets/(liabilities) | 828 | (469) | 814 | 1,173 |

The amount of tax losses carried forward as of 31 December 2015 and 2014 relates to the loss following fiscal years:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|-----------------------------|-----------------------------|-----------------------------|
| Year ended 31 December 2010 | – | 30 |
| Year ended 31 December 2011 | – | 250 |
| Year ended 31 December 2012 | – | – |
| Year ended 31 December 2013 | – | – |
| Year ended 31 December 2014 | 7,221 | 7,032 |
| Year ended 31 December 2015 | – | – |
| Deferred tax asset | 7,221 | 7,312 |

At 31 December 2015 and 31 December 2014, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability have not been recognized was RUB 2,525 million and RUB 3,357 million, respectively.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Relationships between tax expenses and accounting profit for the years ended 31 December 2015 and 2014 are explained as follows:

| | Year ended 31 December 2015 mRUB | Year ended 31 December 2014 mRUB |
|---|---|---|
| Profit/(loss) before income tax | (9,200) | 5,057 |
| Tax at the statutory tax rate (20%) | (1,840) | 1,011 |
| Change in deferred tax asset not recognized | 563 | – |
| Tax effect due to different tax rates | (115) | (201) |
| Tax effect of permanent differences | 1,271 | 1,023 |
| Other effects | 203 | 41 |
| Income tax expense | 82 | 1,874 |
| Current income tax expense | 495 | 1,405 |
| Deferred tax expense | (413) | 469 |
| Income tax expense | 82 | 1,874 |
| Deferred tax assets – beginning of the period | 2,092 | 4,108 |
| Deferred tax liabilities – beginning of the period | (919) | (3,280) |
| Changes in deferred income tax balances recognized in other comprehensive income and directly in equity | 174 | 814 |
| Deferred income tax liabilities/assets of subsidiaries sold/acquired | 55 | – |
| Changes in deferred income tax balances recognized in consolidated profit or loss | 413 | (469) |
| Deferred tax assets – end of the period | 3,363 | 2,092 |
| Deferred tax liabilities – end of the period | (1,548) | (919) |

33. Earnings per share attributable to equity holders of the parent

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|--|-----------------------------------|-----------------------------------|
| Profit/(loss) | | |
| Net profit/(loss) attributable to equity holders of the parent for the period (mRUB) | (9,282) | 3,183 |
| Weighted average number of ordinary shares | | |
| For basic and diluted earnings per share | 1,551,401,853 | 1,551,401,853 |
| Earnings per share – basic and diluted (RUB) | (5.98) | 2.05 |

34. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Litigations and other provisions | 675 | 772 |
| Provision for losses on letters of credit and guarantees | 640 | 517 |
| Total other provisions | 1,315 | 1,289 |

As of 31 December 2015 and 2014, letters of credit and other transactions related to contingent obligations covered by cash on customers' accounts amounted to RUB 229 million and RUB 273 million, respectively and guarantees issued covered by cash amounted to RUB 77 million and RUB 109 million, respectively.

As of 31 December 2015 and 2014, the nominal or contract amounts were:

| | 31 December 2015 Nominal amount mRUB | 31 December 2014 Nominal amount mRUB |
|--|--|--|
| Contingent liabilities and credit commitments | | |
| Guarantees issued and similar commitments | 89,439 | 82,158 |
| Letters of credit and other transaction related contingent obligations | 8,723 | 8,743 |
| Commitments on loans and unused credit lines | 72,482 | 69,265 |
| Total contingent liabilities and credit commitments | 170,644 | 160,166 |

The Group has commitments to provide funds under credit lines facilities. However, the Group has a right not to exercise such commitments due to certain conditions.

Commitments on lease activities – As of 31 December 2015 and 2014 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 83 million and RUB 238 million, respectively.

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of buildings and equipment are as follows:

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--|-----------------------------|-----------------------------|
| Not later than 1 year | 2,000 | 2,170 |
| Later than 1 year and not later than 5 years | 2,574 | 2,225 |
| Later than 5 years | 2,132 | 1,811 |
| Total operating lease commitments | 6,706 | 6,206 |

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Taxation – The Russian laws and regulations affecting business continue to change rapidly. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which applies retroactively and occur with little notice and also in interpretation of the existing laws and regulations by various authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the Russian tax authorities are taking a more assertive position in their interpretation of the legislation and, as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits.

Russian transfer pricing rules introduced additional reporting and documentation requirements. The Russian tax authorities may assess additional tax charges in respect of all controlled transactions (both domestic and cross-border), including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. Special transfer pricing rules apply to transactions with securities and derivatives.

In light of the uncertainty and absence of extensive practice of application of the Russian transfer pricing legislation it cannot be fully excluded that the Russian tax authorities may try to challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation. The impact of the potential challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. However, taking into account that loans represent one of the major parts of transactions between the companies of the Group the Management believes that changes incorporated into the Russian Tax Code starting 1 January 2015 related to introduction of safe harbor rules on interest income and expenses significantly reduce the impact of the potential challenge of the Group's transfer pricing positions on loans.

The amendments introduced into the Russian Tax Code by Federal Law No. 376-FZ dated 24 November 2014, as further amended and supplemented (the "Anti-Offshore Law"), came into force on 1 January 2015. The Anti-Offshore Law introduced into the Russian Tax Code, inter alia, "controlled foreign companies" and beneficial ownership concept. In this respect in 2015 the Group introduced a procedure under which it started to obtain from its clients "beneficial ownership" confirmations in writing. Implementation of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative and, in some cases, could increase the tax burden on the Group.

The Group has strict policies about "controlled foreign companies". Therefore, the Management believes that Anti-Offshore Law in respect of "controlled foreign companies" rules should have a limited effect on the Group.

The introduction of these laws, as well as the interpretation of certain provisions of the Russian tax legislation in combination with the latest trends in law enforcement indicate the potential possibility of increasing of the amount of taxes paid and the amount of penalties, including due to the fact that the Russian tax authorities and courts may be taking a more assertive position in their application of the legislation and assessments. At the same time the potential impact cannot be reliably estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities. Tax inspections may cover three calendar years immediately preceding the year of review. The longer periods may be subjected under certain conditions tested. As such, additional taxes, penalties and late payment interest may be assessed by the relevant authorities.

Management believes that as at 31 December 2015 the provisions of the tax laws applicable to the Group, interpreted them correctly.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Operating environment – Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014 and 2015. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Russia's sovereign debt was downgraded to lowest investment-grade levels by international rating agencies, and further on downgraded to below investment-grade levels during the first quarter 2015, with a negative outlook. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

Share-based payments – The Group engages in cash settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares initially on the date of the grant and then subsequently at each reporting date. The cost of the employee services received in respect of the shares granted is recognized in the consolidated statement of profit or loss within administrative expenses, over the period that the services are received, which is the vesting period. A liability equal to the portion of the goods and services received is recognized at the current fair value determined at each balance sheet date for cash settled payments.

35. Transactions with related parties

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

| | 31 December 2015 mRUB | | 31 December 2014 mRUB | |
|--|-------------------------------|---|-------------------------------|---|
| | Related party transactions | Total category as per financial statement caption | Related party transactions | Total category as per financial statement caption |
| Financial assets at fair value through profit or loss | | | | |
| - shareholders | 35,129 | 56,968 | 81,487 | 153,733 |
| Due from banks | 45,953 | 92,867 | 42,449 | 106,172 |
| - shareholders | 16,999 | | 42,243 | |
| - related parties under common control with the Group | 28,954 | | 206 | |
| Loans to customers, gross | 2,770 | 698,022 | 453 | 734,112 |
| - key management personnel of the Group | 50 | | 51 | |
| - related parties under common control with the Group | 2,720 | | 402 | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | 31 December 2015 mRUB | | 31 December 2014 mRUB | |
|---|-------------------------------|---|-------------------------------|---|
| | Related party transactions | Total category as per financial statement caption | Related party transactions | Total category as per financial statement caption |
| Allowance for impairment losses on loans to customers | (51) | (63,488) | – | (57,223) |
| - related parties under common control with the Group | (51) | | – | |
| Investments available-for-sale | 117 | 5,683 | 117 | 4,993 |
| - related parties under common control with the Group | 117 | | 117 | |
| Other assets | 231 | 12,273 | 328 | 11,869 |
| - shareholders | 212 | | 297 | |
| - related parties under common control with the Group | 19 | | 31 | |
| Financial liabilities at fair value through profit or loss | 27,947 | 54,860 | 89,063 | 125,428 |
| - shareholders | 27,947 | | 89,063 | |
| Due to banks | 6,003 | 68,684 | 54,586 | 134,894 |
| - shareholders | 5,017 | | 52,627 | |
| - related parties under common control with the Group | 986 | | 1,959 | |
| Customer accounts | 5,616 | 516,707 | 8,979 | 485,676 |
| - shareholders | – | | 580 | |
| - key management personnel of the Group | 195 | | 327 | |
| - related parties under common control with the Group | 5,421 | | 8,072 | |
| Other liabilities | 868 | 10,507 | 697 | 11,662 |
| - shareholders | 868 | | 697 | |
| Subordinated debt | 58,281 | 58,281 | 46,443 | 46,443 |
| - shareholders | 52,324 | | 41,845 | |
| - related parties under common control with the Group | 5,957 | | 4,598 | |
| Guarantees issued and similar commitments | 2,020 | 89,439 | 1,965 | 82,158 |
| - shareholders | 2,015 | | 980 | |
| - key management personnel of the Group | – | | – | |
| - related parties under common control with the Group | 5 | | 985 | |
| Commitments on loans and unused credit lines | 7,819 | 72,482 | 6,142 | 69,265 |
| - shareholders | 5,000 | | 5,000 | |
| - key management personnel of the Group | 1 | | 6 | |
| - related parties under common control with the Group | 2,818 | | 1,136 | |
| Guarantees received | 12,618 | 303,883 | 4,141 | 258,456 |
| - shareholders | 12,308 | | 4,141 | |
| - related parties under common control with the Group | 310 | | – | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Included in the consolidated statements of profit or loss for the year ended 31 December 2015 and 2014 are the following amounts which arose due to transactions with related parties:

| | Year ended 31 December 2015 mRUB | | Year ended 31 December 2014 mRUB | |
|--|--|--|--|--|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income | 3,085 | 93,459 | 518 | 89,922 |
| - shareholders | 2,903 | | 504 | |
| - key management personnel of the Group | 5 | | 6 | |
| - related parties controlled by, or under common control with the Group | 177 | | 8 | |
| Interest expense | (5,497) | (56,130) | (6,654) | (41,522) |
| - shareholders | (4,824) | | (5,977) | |
| - key management personnel of the Group | (7) | | (21) | |
| - related parties under common control with the Group | (666) | | (656) | |
| Provision for impairment losses on interest bearing assets | (51) | (21,107) | 39 | (17,989) |
| - related parties under common control with the Group | (51) | | 39 | |
| Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards | 2,237 | (1,873) | (13,868) | (1,546) |
| - shareholders | 2,237 | | (13,868) | |
| Net gain/(loss) on foreign exchange operations and on precious metals operations | (11,874) | 1,373 | 5,046 | (502) |
| - shareholders | (11,887) | | 5,021 | |
| - key management personnel of the Group | | | – | |
| - related parties under common control with the Group | 13 | | 25 | |
| Fee and commission income | 1,023 | 12,098 | 2,174 | 13,945 |
| - shareholders | 225 | | 203 | |
| - key management personnel of the Group | 7 | | 4 | |
| - related parties under common control with the Group | 791 | | 1,967 | |
| Fee and commission expense | (250) | (2,565) | (194) | (2,198) |
| - shareholders | (246) | | (194) | |
| - related parties under common control with the Group | (4) | | – | |
| Operating expense (other than compensation) | (428) | (15,567) | (356) | (17,077) |
| - shareholders | (412) | | (356) | |
| - related parties under common control with the Group | (16) | | – | |
| Other income | 50 | 1,196 | 45 | 1,250 |
| - shareholders | 18 | | 13 | |
| - related parties under common control with the Group | 32 | | 32 | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | Year ended 31 December 2015 mRUB | | Year ended 31 December 2014 mRUB | |
|--|--|--|--|--|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Salary, bonuses and social security contribution | (633) | (19,568) | (592) | (19,122) |
| - key management personnel | (633) | | (592) | |
| Share-based payment | (35) | | – | |
| - short-term employee benefits | (35) | | – | |

36. Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 13 *Fair Value Measurement*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at variable rates management believes that carrying rate may be assumed to be fair value.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | 31 December 2015 | | 31 December 2014 | |
|---|----------------------|------------------|----------------------|------------------|
| | Carrying value, mRUB | Fair value, mRUB | Carrying value, mRUB | Fair value, mRUB |
| Cash and balances with the Central Bank of the Russian Federation | 103,225 | 103,225 | 78,230 | 78,230 |
| Financial assets at fair value through profit or loss | | | | |
| - <i>Derivative financial instruments</i> | 53,440 | 53,440 | 139,941 | 139,941 |
| - <i>Debt securities</i> | 3,528 | 3,528 | 13,792 | 13,792 |
| Due from banks | 92,867 | 92,867 | 106,172 | 106,172 |
| Loans to customers | 634,534 | 607,663 | 676,889 | 676,889 |
| Investments available-for-sale | 5,683 | 5,683 | 4,993 | 4,993 |
| Investments held to maturity | 79,582 | 80,687 | 65,318 | 56,792 |
| Other financial assets | 2,101 | 2,101 | 2,590 | 2,590 |
| Financial liabilities at fair value through profit or loss | 54,860 | 54,860 | 125,428 | 125,428 |
| Due to the Central Bank of the Russian Federation | 18,861 | 18,861 | 44,027 | 44,027 |
| Due to banks | 68,684 | 69,501 | 134,894 | 134,894 |
| Customer accounts | 516,707 | 518,336 | 485,676 | 485,676 |
| Debt securities issued | 159,795 | 159,621 | 146,049 | 141,547 |
| Other financial liabilities | 8,507 | 8,507 | 8,274 | 8,274 |
| Subordinated debt | 58,281 | 57,833 | 46,443 | 46,443 |

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts.

Fair value measurements recognised in the consolidated statement of financial position

For the purpose of fair value hierarchy disclosure as at 31 December 2015 and 2014, the Group has categorized classes of assets and liabilities at fair value into Level 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| Balance Sheet Category | 31 December 2015, mRUB | | | 31 December 2014, mRUB | | |
|---|---------------------------|---------|---------|---------------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Cash and balances with the Central Bank of the Russian Federation | – | 103,225 | – | – | 78,230 | – |
| Financial assets at fair value through profit or loss | | | | | | |
| - <i>Derivative financial instruments</i> | – | 53,440 | – | – | 139,941 | – |
| - <i>Debt securities</i> | 3,528 | – | – | 8,107 | 5,685 | – |
| Due from banks | – | 8,253 | 84,614 | – | 4,892 | 101,280 |
| Loans to customers | – | – | 607,663 | – | – | 676,889 |
| Investments available-for-sale | 5,551 | 132 | – | 4,855 | 138 | – |
| Investments held to maturity | 80,687 | – | – | 56,792 | – | – |
| Property and equipment | – | – | 16,670 | – | – | 19,339 |
| Financial liabilities at fair value through profit or loss | 1,366 | 53,494 | – | – | 125,428 | – |
| Due to the Central Bank of the Russian Federation | – | 18,861 | – | – | 44,027 | – |
| Due to banks | – | 944 | 68,557 | – | – | 134,894 |
| Customer accounts | – | – | 518,336 | – | – | 485,676 |
| Debt securities issued | 157,211 | 2,410 | – | 138,046 | 3,501 | – |
| Subordinated debt | – | – | 57,833 | – | – | 46,443 |

Possibility of transfer from Level 1 to Level 2 category is assessed as low, as liquidity control is performed by Market Risk Department. Control period of liquidity assessment is 90 days from position opening. Market risk department performs liquidity analysis using position turnover, volumes of exchange trades, availability of exchange and brokers quotations. In case of position assessment as insufficient liquid the necessary actions to close position are taken.

For financial instruments that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Level 3 fair values of land and office buildings have been generally derived using the adjusted sales comparison approach, the income-based approach and the costs method. Unobservable inputs included in the calculations for sales comparison approach represent various adjustments considered to account for the difference between the compared properties in terms of size, location, bargain prices to which sellers are willing to go (ranging from 0% to -15%). The unobservable inputs included in the income-based approach calculations represent mainly the adjustments considered to account for the discounting rates (ranging from 10 % to 12%) and capitalization rates (from 9% to 12.5%).

The sensitivity of the fair value measurement to changes in those unobservable inputs indicated above does not result in a significantly higher or lower fair value measurement.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

37. Offsetting financial assets and liabilities

| | Impact of offsetting on the statement of financial position | | Net amount presented in the statement of financial position | Impact of Master Netting Agreements and similar agreements | | | Assets not subject to offsetting | Total assets/liabilities 31 December 2015 | |
|--|---|----------------|---|---|--------------------------|--|----------------------------------|--|------------------|
| | Gross amount | Amounts offset | | Financial instruments recognised in the statement of financial position | Cash collateral received | Financial instruments received as collateral | | | Net amount |
| ASSETS | | | | | | | | | |
| Derivative financial instruments | 53,440 | – | 53,440 | 36,166 | – | – | 17,274 | – | 53,440 |
| Due from banks under reverse repurchase agreements | 8,253 | – | 8,253 | – | – | – | 8,253 | – | 8,253 |
| Other assets not subject to offsetting | – | – | – | – | – | – | – | 949,486 | 949,486 |
| TOTAL ASSETS | 61,693 | – | 61,693 | 36,166 | – | – | 25,527 | 949,486 | 1,011,179 |
| LIABILITIES | | | | | | | | | |
| Derivative financial instruments | 53,494 | – | 53,494 | 36,166 | – | – | 17,328 | – | 53,494 |
| Due to banks under reverse repurchase agreements | 944 | – | 944 | – | – | – | 944 | – | 944 |
| Other liabilities not subject to offsetting | – | – | – | – | – | – | – | 836,240 | 836,240 |
| TOTAL LIABILITIES | 54,438 | – | 54,438 | 36,166 | – | – | 18,272 | 836,240 | 890,678 |

| | Impact of offsetting on the statement of financial position | | Net amount presented in the statement of financial position | Impact of Master Netting Agreements and similar agreements | | | Assets not subject to offsetting | Total assets/liabilities 31 December 2014 | |
|---|---|----------------|---|---|--------------------------|--|----------------------------------|--|------------------|
| | Gross amount | Amounts offset | | Financial instruments recognised in the statement of financial position | Cash collateral received | Financial instruments received as collateral | | | Net amount |
| ASSETS | | | | | | | | | |
| Derivative financial instruments | 139,941 | – | 139,941 | 100,890 | – | – | 39,051 | – | 139,941 |
| Other assets not subject to offsetting | – | – | – | – | – | – | – | 986,207 | 986,207 |
| TOTAL ASSETS | 139,941 | – | 139,941 | 100,890 | – | – | 39,051 | 986,207 | 1,126,148 |
| LIABILITIES | | | | | | | | | |
| Derivative financial instruments | 125,428 | – | 125,428 | 100,890 | – | – | 24,538 | – | 125,428 |
| Other liabilities not subject to offsetting | – | – | – | – | – | – | – | 871,076 | 871,076 |
| TOTAL LIABILITIES | 125,428 | – | 125,428 | 100,890 | – | – | 24,538 | 871,076 | 996,504 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

38. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee.

| | 31 December 2015 mRUB | 31 December 2014 mRUB |
|----------------------|--------------------------------------|--------------------------------------|
| Tier 1 capital | 113,668 | 117,099 |
| Tier 2 capital | <u>56,545</u> | <u>54,269</u> |
| Total capital | <u>170,213</u> | <u>171,368</u> |

As at 31 December 2015 and 2014 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

As at 31 December 2015 the Group's total capital amount for Capital Adequacy purposes was RUB 170,213 million and Tier 1 capital amount was RUB 113,668 million with ratios of 20.60% and 13.80%, respectively.

As at 31 December 2014 the Group's total capital amount for Capital Adequacy purposes was RUB 171,368 million and Tier 1 capital amount was RUB 117,099 million with ratios of 19.7% and 13.5%, respectively.

39. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group is obliged to comply with CBR capital adequacy requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 22, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2014.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

40. Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Treasury and Financial institutions – representing all trading financial instruments recognized and measured at fair value through profit and loss as well as loans and borrowings initiated through interbank transactions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's marginal funding price. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The main business activity of the Group is concentrated in RF, thus no geographical segmentation is reported.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Segment information about these businesses is presented below.

| | Retail banking | Corporate banking | Treasury and Financial institutions | Unallocated | Year ended 31 December 2015 |
|---|-------------------|----------------------|---|----------------|-----------------------------------|
| Net interest margin | 28,850 | 10,220 | 2,250 | (3,991) | 37,329 |
| Provisions for impairment losses on interest bearing assets | (21,247) | 44 | (4) | 100 | (21,107) |
| Net gain/(loss) on financial transactions | 574 | (49) | 2,781 | (3,806) | (500) |
| Net fee and commission income | 5,596 | 3,854 | 375 | (292) | 9,533 |
| Other provisions | (47) | (108) | – | (636) | (791) |
| Dividend income | – | – | – | 46 | 46 |
| Other income | 272 | 37 | 71 | 816 | 1,196 |
| Total operating income | 13,998 | 13,998 | 5,473 | (7,763) | 25,706 |
| Operating expenses | (26,969) | (6,004) | (1,499) | (663) | (35,135) |
| Other non-operating income | – | – | – | 229 | 229 |
| Profit/(loss) before income tax | (12,971) | 7,994 | 3,974 | (8,197) | (9,200) |
| Income tax expense | – | – | – | (82) | (82) |
| Net profit/(loss) | (12,971) | 7,994 | 3,974 | (8,279) | (9,282) |
| Segment assets | 403,880 | 261,251 | 146,147 | 199,901 | 1,011,179 |
| Segment liabilities | 328,624 | 316,257 | 178,307 | 67,490 | 890,678 |
| Other segment items | | | | | |
| Depreciation charge on property and equipment | (1,127) | (180) | (12) | (1,208) | (2,527) |
| Cash and balances with the Central Bank of the Russian Federation | 13,391 | – | – | 89,834 | 103,225 |
| Financial assets at fair value through profit or loss | – | – | 56,968 | – | 56,968 |
| Due from banks | 3,792 | – | 89,075 | – | 92,867 |
| Loans to customers | 374,868 | 259,666 | – | – | 634,534 |
| Investments available-for-sale | – | – | – | 5,683 | 5,683 |
| Investments held to maturity | – | – | – | 79,582 | 79,582 |
| Property and equipment | 8,963 | 1,432 | 95 | 9,615 | 20,105 |
| Intangible assets | 956 | 153 | 10 | 1,025 | 2,144 |
| Financial liabilities at fair value through profit or loss | – | – | 54,860 | – | 54,860 |
| Due to the Central Bank of the Russian Federation | – | – | 18,861 | – | 18,861 |
| Due to banks | 21,246 | – | 47,438 | – | 68,684 |
| Customer accounts | 200,449 | 316,258 | – | – | 516,707 |
| Debt securities issued | 102,647 | – | 57,148 | – | 159,795 |
| Subordinated debt | – | – | – | 58,281 | 58,281 |
| Capital expenditure | 1,366 | 218 | 15 | 1,466 | 3,065 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | Retail banking | Corporate banking | Treasury and Financial institutions | Unallocated | Year ended 31 December 2014 |
|---|-------------------|----------------------|---|----------------|-----------------------------------|
| Net interest margin | 33,401 | 9,685 | (383) | 5,697 | 48,400 |
| Provisions for impairment losses on interest bearing assets | (14,130) | (3,464) | (7) | (388) | (17,989) |
| Net gain/(loss) on financial transactions | 839 | – | 2,142 | (5,029) | (2,048) |
| Net fee and commission income | 6,494 | 4,966 | 760 | (473) | 11,747 |
| Other provisions | – | (394) | – | – | (394) |
| Dividend income | – | – | – | 290 | 290 |
| Other income | 361 | 15 | 69 | 805 | 1,250 |
| Total operating income | 26,965 | 10,808 | 2,581 | 902 | 41,256 |
| Operating expenses | (24,858) | (8,732) | (1,636) | (973) | (36,199) |
| Profit/(loss) before income tax | 2,107 | 2,076 | 945 | (71) | 5,057 |
| Income tax expense | – | – | – | (1,874) | (1,874) |
| Net profit | 2,107 | 2,076 | 945 | (1,945) | 3,183 |
| Segment assets | 475,365 | 231,603 | 259,501 | 159,679 | 1,126,148 |
| Segment liabilities | 306,119 | 315,506 | 318,084 | 56,795 | 996,504 |
| Other segment items | | | | | |
| Depreciation charge on property and equipment | (1,148) | (351) | (38) | (660) | (2,197) |
| Cash and balances with the Central Bank of the Russian Federation | 9,598 | – | – | 68,632 | 78,230 |
| Financial assets at fair value through profit or loss | – | – | 153,733 | – | 153,733 |
| Due from banks | 845 | – | 105,327 | – | 106,172 |
| Loans to customers | 449,333 | 227,556 | – | – | 676,889 |
| Investments available-for-sale | – | – | – | 4,993 | 4,993 |
| Investments held to maturity | – | – | – | 65,318 | 65,318 |
| Property and equipment | 12,492 | 3,822 | 416 | 7,167 | 23,897 |
| Intangible assets | 735 | 225 | 24 | 421 | 1,405 |
| Financial liabilities at fair value through profit or loss | – | – | 125,428 | – | 125,428 |
| Due to the Central Bank of the Russian Federation | – | – | 44,027 | – | 44,027 |
| Due to banks | 46,075 | – | 88,819 | – | 134,894 |
| Customer accounts | 170,170 | 315,506 | – | – | 485,676 |
| Debt securities issued | 86,239 | – | 59,810 | – | 146,049 |
| Subordinated debt | – | – | – | 46,443 | 46,443 |
| Capital expenditure | 1,562 | 478 | 52 | 896 | 2,988 |

For the purpose of the segment reporting disclosure the category “Net gain/(loss) on financial transactions” includes the following categories:

- Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards;
- Net gain/(loss) on foreign exchange operations;
- Net gain/(loss) on precious metals operations.

41. Risk management policies

Risk management process is fundamental to the Group's banking business and an essential part of the overall Group's risks and capital management strategy within Internal Capital Adequacy Assessment Procedures (ICAAP).

The Group integrates throughout its internal processes ICAAP composed by set of approaches, methods, procedures and instruments and also corporate governance structure which the Group uses for risk and capital management in line with the strategic expectations of the stakeholders in the implementation of the Group's strategic and business objectives.

ICAAP realization figures, such as risk-appetite metrics and stress-testing results are applied within decision making process regarding business development as a basis for required capital assessment necessary to cover significant risks taken and potential ones.

The Group reviews on a yearly basis its actual risk structure within ICAAP based upon the results of significant risks identification procedure and defined risk-appetite to provide a further step for defining its target risk management process and related policies.

Procedure of significant risks identification generally entails the listing a comprehensive inventory of risks, determining the inherent risk level based on the information available, identification and documentation of the existing risk controls implemented by the Group which reduce the inherent risk level (e.g. existence of dedicated risk management policies, KRIs, risk measures and limits, regular monitoring and reporting processes, calculation of regulatory or internal capital, other if the case), prioritization of risk depending on the Bank's risk-appetite, determining the residual risk level based (after the consideration of the risk controls used by the Bank) in terms of both likelihood and impact.

The Group is exposed to the risks inherent in its core businesses. Its results of operations in the past have been, and in the future may continue to be materially affected by many factors, including: market conditions, the cost of capital, the liquidity of global markets, the level and volatility of equity prices and interest rates, technological developments, the cost of credit, inflation, the stability of financial institutions, and investor confidence in the financial markets.

Given the diversity and changes in the Group, its risk management focuses on the following main categories of risks that could adversely affect its performance:

- Liquidity risk;
- Operational risk;
- Structural interest rate risk;
- Market risks and structural currency risk;
- Credit risk;
- Other risks (Strategic risk).

A description of the Group's risk management policies on the regular basis in relation to the significant risks follows below:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Group manages liquidity risk by maintaining appropriate set of transformation and stress test limits as well as a set of dynamic early warning indicators triggering activation of contingency funding plans.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Current liquidity and cash flow risks are commonly managed by the Treasury department and ALM within Finance division. Short term liquidity structure is daily managed by Treasury (priority in decisions with horizon up to 1 month) while general structure and long term horizon is followed by ALM (priority in decisions on horizon over 1 month). Strategic decisions and overall risk monitoring is provided by the Management Board through Assets and Liabilities Management Committee (ALCO).

The Treasury Department produces intra-day forecasts on the Group payment position with short horizon (1-3 days) and performs management and control of the current liquidity position of the Group. The Asset and Liability Management Department (ALM) assesses excess/lack of liquidity on cumulative and individual basis through managerial cash flow gap analysis. It is reported to top and senior management of the Bank weekly, presented on ALCO. Quarterly the Group IFRS cash flow gap table is produced according to standards of the major shareholder and reported via automated system for consolidation. The method used for assessment of the maturity structure is GAP analysis is being constantly revised to ensure integrity with real business profile and standards of the Group. It includes the analysis of absolute characteristics of the individual and cumulative gaps of the periodic structure of assets/liabilities based on basic maturity periods. Maturity is presented according to contractual terms and modeled prepayment impact for explicit maturity items and modeled amortization schedule for non-maturity items, client behaviour regarding contractual options is subject for further implementation in the gaps structure. The Central Bank of the Russian Federation's obligatory ratios are calculated and forecasted in terms of compliance by ALM. Both Treasury and ALM activities are performed with regard to possible impact on regulatory compliance.

The analysis of liquidity risk is presented in the following table:

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2015 mRUB Total |
|---|------------------|------------------------|-----------------------|----------------------|-----------------|-----------------------|--------------------------------------|
| ASSETS | | | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 99,326 | – | – | – | – | 3,899 | 103,225 |
| Financial assets at fair value through profit or loss | 4,709 | 3,147 | 8,592 | 23,736 | 16,784 | – | 56,968 |
| Due from banks | 75,743 | 1,739 | 15,385 | – | – | – | 92,867 |
| Loans to customers | 46,651 | 84,639 | 181,489 | 262,793 | 58,962 | – | 634,534 |
| Investments available-for-sale | 5,551 | – | 13 | 52 | 65 | 2 | 5,683 |
| Investments held to maturity | 76,474 | – | 1,975 | – | 1,133 | – | 79,582 |
| Property and equipment | 263 | 366 | 1,618 | 8,152 | 9,706 | – | 20,105 |
| Intangible assets | 36 | 71 | 321 | 1,716 | – | – | 2,144 |
| Current income tax asset | 435 | – | – | – | – | – | 435 |
| Deferred income tax asset | 28 | 56 | 252 | 1,345 | 1,682 | – | 3,363 |
| Other assets | 8,349 | 626 | 633 | 2,665 | – | – | 12,273 |
| TOTAL ASSETS | 317,565 | 90,644 | 210,278 | 300,459 | 88,332 | 3,901 | 1,011,179 |
| LIABILITIES | | | | | | | |
| Financial liabilities at fair value through profit or loss | 4,066 | 1,186 | 9,996 | 21,483 | 18,129 | – | 54,860 |
| Due to the Central Bank of the Russian Federation | 61 | 15,000 | 500 | 3,300 | – | – | 18,861 |
| Due to banks | 47,177 | 1,380 | 4,369 | 13,334 | 2,424 | – | 68,684 |
| Customer accounts | 154,943 | 52,226 | 169,145 | 109,435 | 30,958 | – | 516,707 |
| Debt securities issued | 12,714 | 11,417 | 62,612 | 53,958 | 19,094 | – | 159,795 |
| Other provisions | 1,315 | – | – | – | – | – | 1,315 |
| Current income tax liabilities | 120 | – | – | – | – | – | 120 |
| Deferred income tax liabilities | 13 | 26 | 116 | 619 | 774 | – | 1,548 |
| Other liabilities | 4,181 | 4,325 | 1,995 | 6 | – | – | 10,507 |
| Subordinated debt | 163 | 383 | 1,397 | 19,261 | 37,077 | – | 58,281 |
| TOTAL LIABILITIES | 224,753 | 85,943 | 250,130 | 221,396 | 108,456 | – | 890,678 |
| Liquidity gap | 92,812 | 4,701 | (39,852) | 79,063 | (20,124) | 3,901 | |
| Cumulative liquidity gap | 92,812 | 97,513 | 57,661 | 136,724 | 116,600 | 120,501 | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2014 mRUB Total |
|---|------------------|------------------------|-----------------------|----------------------|-----------------|-----------------------|--------------------------------------|
| ASSETS | | | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 72,655 | – | – | – | – | 5,575 | 78,230 |
| Financial assets at fair value through profit or loss | 20,619 | 35,180 | 51,231 | 26,073 | 20,630 | – | 153,733 |
| Due from banks | 88,116 | 8,461 | 8,189 | 1,406 | – | – | 106,172 |
| Loans to customers | 40,538 | 80,984 | 204,749 | 277,859 | 72,759 | – | 676,889 |
| Investments available-for-sale | 4,632 | – | 136 | 97 | 121 | 7 | 4,993 |
| Investments held to maturity | – | – | – | 7,323 | 57,995 | – | 65,318 |
| Property and equipment | 254 | 402 | 1,781 | 9,120 | 12,340 | – | 23,897 |
| Intangible assets | 23 | 47 | 211 | 1,124 | – | – | 1,405 |
| Current income tax asset | – | – | 1,550 | – | – | – | 1,550 |
| Deferred income tax asset | – | – | – | – | 2,092 | – | 2,092 |
| Other assets | 6,485 | 1,042 | 1,143 | 3,199 | – | – | 11,869 |
| TOTAL ASSETS | 233,322 | 126,116 | 268,990 | 326,201 | 165,937 | 5,582 | 1,126,148 |
| LIABILITIES | | | | | | | |
| Financial liabilities at fair value through profit or loss | 10,649 | 27,780 | 41,805 | 24,293 | 20,901 | – | 125,428 |
| Due to the Central Bank of the Russian Federation | 27,627 | 14,500 | 1,900 | – | – | – | 44,027 |
| Due to banks | 62,815 | 402 | 26,283 | 45,268 | 126 | – | 134,894 |
| Customer accounts | 155,960 | 66,205 | 129,695 | 95,926 | 37,888 | 2 | 485,676 |
| Debt securities issued | 6,076 | 3,211 | 50,175 | 72,297 | 14,279 | 11 | 146,049 |
| Other provisions | 1,289 | – | – | – | – | – | 1,289 |
| Current income tax liabilities | 117 | – | – | – | – | – | 117 |
| Deferred income tax liabilities | – | – | – | – | 919 | – | 919 |
| Other liabilities | 7,650 | 2,349 | 1,055 | 608 | – | – | 11,662 |
| Subordinated debt | 127 | 288 | 153 | 4,681 | 41,194 | – | 46,443 |
| TOTAL LIABILITIES | 272,310 | 114,735 | 251,066 | 243,073 | 115,307 | 13 | 996,504 |
| Liquidity gap | (38,988) | 11,381 | 17,924 | 83,128 | 50,630 | 5,569 | |
| Cumulative liquidity gap | (38,988) | (27,607) | (9,683) | 73,445 | 124,075 | 129,644 | |

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptance cost when they mature are crucial in determining the Group's liquidity and its fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

The equity investments available-for-sale and the equity investments at fair value through profit or loss have no contractual maturity and are classified based on management's intentions.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that deposits are a stable and long-term source of financing for the Group.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The table below presents the cash flow payable by the Group under financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Group manages the inherent liquidity risk based on discounted expected cash inflows.

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2015 mRUB Total |
|---|------------------|------------------------|-----------------------|----------------------|-----------------|--------------------------------------|
| LIABILITIES | | | | | | |
| Gross settled derivative financial liabilities at fair value through profit or loss | | | | | | |
| - inflow | (7,890) | (30,507) | (18,535) | (43,220) | – | (100,152) |
| - outflow | 10,532 | 31,607 | 24,779 | 61,972 | – | 128,890 |
| Net settled financial liabilities at fair value through profit or loss (liabilities) | 549 | 75 | 3,118 | 3,089 | 24,884 | 31,715 |
| Due to the Central Bank of the Russian Federation | 182 | 15,311 | 783 | 3,337 | – | 19,613 |
| Due to banks | 47,723 | 1,804 | 5,139 | 16,507 | 2,784 | 73,957 |
| Customer accounts | 155,240 | 52,924 | 176,655 | 114,187 | 30,959 | 529,965 |
| Debt securities issued | 13,143 | 12,576 | 70,743 | 63,805 | 21,050 | 181,317 |
| Other provisions | 1,315 | – | – | – | – | 1,315 |
| Other financial liabilities | 1,145 | 3,679 | 3,683 | – | – | 8,507 |
| Subordinated debt | 176 | 848 | 3,533 | 35,258 | 43,984 | 83,799 |
| Contingent liabilities and credit commitments | 21,673 | 27,070 | 55,841 | 58,900 | 6,934 | 170,418 |
| Total financial liabilities and commitments | 243,788 | 115,387 | 325,739 | 313,835 | 130,595 | 1,129,344 |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2014 mRUB Total |
|---|------------------|------------------------|-----------------------|----------------------|-----------------|--------------------------------------|
| LIABILITIES | | | | | | |
| Financial liabilities at fair value through profit or loss | 10,649 | 27,780 | 41,805 | 24,293 | 20,901 | 125,428 |
| Due to the Central Bank of the Russian Federation | 28,066 | 14,869 | 2,018 | – | – | 44,953 |
| Due to banks | 63,058 | 855 | 27,576 | 47,934 | 336 | 139,759 |
| Customer accounts | 157,191 | 66,912 | 131,359 | 99,873 | 37,672 | 493,007 |
| Debt securities issued | 5,754 | 6,670 | 55,389 | 83,782 | 43,587 | 195,182 |
| Other provisions | 1,289 | – | – | – | – | 1,289 |
| Other financial liabilities | 2,647 | 2,754 | 2,873 | – | – | 8,274 |
| Subordinated debt | 387 | 1,050 | 2,629 | 10,871 | 53,502 | 68,439 |
| Contingent liabilities and credit commitments | 28,247 | 13,923 | 61,178 | 53,653 | 3,042 | 160,043 |
| Total financial liabilities and commitments | 297,288 | 134,813 | 324,827 | 320,406 | 159,040 | 1,236,374 |

As at 31 December 2015 and 2014 contingent liabilities and credit commitments included financial guarantee contracts in the amount of RUB 89,439 million and RUB 82,158 million, respectively. These are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantees which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Operational risk

Operational risk is defined as the risk of loss due to unreliability of the internal procedures of the Group negligence of the employees, failure of information systems or due to the influence of external events on the activities of the Group. Legal risk is a part of operational risk.

The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks. Policies and procedures governing operational risk management are developed and implemented. The Group uses an operational risk assessment method based upon regulatory methodologies, procedures for risk monitoring, and also the measures for its limitation are developed and implemented. The Group uses the following identification and assessment instruments of operational risk: KRI, collects data on internal and external losses, implements scenario analysis, conducts an annual risk and control procedures self-assessment (RCSA). The Group has developed plans ensuring continuity and (or) restoration of activities and action plans in crisis situations. Despite the measures taken, the risk remains a significant one due to its characteristic features to affect the realization of other risks.

Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

Structural interest rate risk

Structural interest rate risk is measured within the scope of structural activities (transactions with clients, the associated hedging transactions and proprietary transactions). Structural interest rate risk arises mainly from the residual gaps (surplus or deficit) in each entity's fixed-rate forecasted positions.

The Group's main aim is to reduce each Group entity's exposure to structural interest rate risk as much as possible. Exposure to interest rate risk of banking book is measured through discounted cash flows of balance and off balance sheet items and is limited by adequate limits framing the sensitivity to market yield curve shifts. In addition to this analysis, the Group also analyses the sensitivity to different yield curve configurations of the fixed rate position (steepening and flattening of the yield curve). The measurement of the net interest income sensitivity is also used by the Group to quantify the structural interest rate risk of significant entities.

To this end, any residual structural interest rate risk exposure must comply with the sensitivity limits set for each entity and for the overall Group as validated by the Finance Committee.

In order to quantify its exposure to structural interest rate risks, the Group analyses all fixed-rate assets and liabilities in the future. These positions come from transactions remunerated or charged at fixed rates and from their maturities.

Assets and liabilities are analysed independently, without any a priori matching. The maturities of outstanding assets and liabilities are determined on the basis of the contractual terms of transactions, models based on clients' historic behaviour patterns (particularly for savings accounts, early loan repayments, etc.), as well as conventional assumptions relating to certain balance sheet items (principally shareholders' equity and sight deposits).

Throughout 2015, the Group's overall sensitivity to interest rate risk remained within the limit.

Sensitivity to interest rate variations of the Group is presented below:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|--|-----------------------------------|-----------------------------------|
| Short term | 488 | 210 |
| Medium term | (1,497) | (1,705) |
| Long term | 1,029 | 40 |
| Total sensitivity to interest rate risk | 20 | (1,455) |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Market risk pertaining to interest rate related instruments

Market risk defined as the risk of losses in on and off-balance-sheet positions arising from movements in market risk-parameters.

As the main subspecies of market risks the Group indicates as follows below.

Interest rate risk

The Group deals with the instruments subject to interest rate risk (sub-category of the market risk) – the risk of losses in case of changes in market prices caused by interest rates modifications.

The Group manages this market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate limits.

Sensitivity calculation of net interest margin to interest rate variations of the Group for the one year horizon is presented below:

| | Year ended 31 December 2015 | Interest rates fluctuation | | | |
|---|-----------------------------------|----------------------------|----------------|--------------|--------------|
| | | Down -2% | Down -1% | Up 1% | Up 2% |
| Due from banks | 168,773 | (853) | (625) | 785 | 1,571 |
| Loans to customers | 634,534 | (3,694) | (1,258) | 3,644 | 6,103 |
| Debt securities | 88,661 | (91) | (46) | 46 | 91 |
| Total interest bearing assets | 892,100 | (4,638) | (1,928) | 4,475 | 7,764 |
| Due to banks | 68,684 | (772) | (403) | 663 | 1,324 |
| Customer accounts | 516,707 | (4,254) | (2,423) | 2,572 | 5,110 |
| Debt securities issued | 159,795 | (978) | (451) | 615 | 1,154 |
| Total interest bearing liabilities | 745,186 | (6,004) | (3,277) | 3,850 | 7,588 |

| | Year ended 31 December 2014 | Interest rates fluctuation | | | |
|---|-----------------------------------|----------------------------|----------------|--------------|--------------|
| | | Down -2% | Down -1% | Up 1% | Up 2% |
| Due from banks | 205,292 | (1,289) | (800) | 721 | 1,698 |
| Loans to customers | 676,889 | (4,720) | (2,360) | 2,360 | 4,721 |
| Debt securities | 83,965 | – | – | – | – |
| Total interest bearing assets | 966,284 | (6,009) | (3,160) | 3,081 | 6,419 |
| Due to banks | 134,894 | (1,601) | (912) | 803 | 1,728 |
| Customer accounts | 485,676 | (3,966) | (2,111) | 1,925 | 3,950 |
| Debt securities issued | 146,049 | (798) | (477) | 167 | 489 |
| Total interest bearing liabilities | 766,619 | (6,366) | (3,499) | 2,895 | 6,166 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Currency risk and structural currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group separates structural currency risk which arises due to adverse changing in exchange rates and (or) prices for precious metals on the positions opened by the Group as whole in foreign currencies and (or) precious metals, applies the minimum corresponding limits and controls its utilization on a daily basis.

The Group is exposed to the effects of fluctuation in prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

| | RUB | USD 1 USD = 72.8827 RUB | EUR 1 EUR = 79.6972 RUB | Precious metals | Other currency | 31 December 2015 Total |
|---|----------------|----------------------------------|----------------------------------|--------------------|-------------------|------------------------------|
| ASSETS | | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 98,186 | 3,106 | 1,723 | – | 210 | 103,225 |
| Financial assets at fair value through profit or loss | 32,361 | 5,831 | 1,724 | – | 17,052 | 56,968 |
| Due from banks | 20,480 | 62,422 | 6,188 | – | 3,777 | 92,867 |
| Loans to customers | 469,848 | 153,318 | 11,368 | – | – | 634,534 |
| Investments available-for-sale | 5,682 | – | 1 | – | – | 5,683 |
| Investments held to maturity | 30,259 | 48,163 | 1,160 | – | – | 79,582 |
| Other financial assets | 1,386 | 23 | 692 | – | – | 2,101 |
| TOTAL FINANCIAL ASSETS | 658,202 | 272,863 | 22,856 | – | 21,039 | 974,960 |
| Property and equipment | 20,105 | – | – | – | – | 20,105 |
| Intangible assets | 2,144 | – | – | – | – | 2,144 |
| Current income tax assets | 435 | – | – | – | – | 435 |
| Deferred income tax asset | 3,363 | – | – | – | – | 3,363 |
| Other non-financial assets | 9,382 | 286 | 481 | – | 23 | 10,172 |
| TOTAL NON-FINANCIAL ASSETS | 35,429 | 286 | 481 | – | 23 | 36,219 |
| TOTAL ASSETS | 693,631 | 273,149 | 23,337 | – | 21,062 | 1,011,179 |
| LIABILITIES | | | | | | |
| Financial liabilities at fair value through profit or loss | 31,446 | 4,859 | 1,503 | – | 17,052 | 54,860 |
| Due to CBR | 18,861 | – | – | – | – | 18,861 |
| Due to banks | 38,870 | 25,225 | 4,585 | – | 4 | 68,684 |
| Customer accounts | 311,859 | 171,123 | 28,960 | 607 | 4,158 | 516,707 |
| Debt securities issued | 159,774 | 21 | – | – | – | 159,795 |
| Other provisions | 994 | 213 | 101 | – | 7 | 1,315 |
| Other financial liabilities | 6,397 | 115 | 1,995 | – | – | 8,507 |
| Subordinated debt | 4,927 | 49,366 | 3,988 | – | – | 58,281 |
| TOTAL FINANCIAL LIABILITIES | 573,128 | 250,922 | 41,132 | 607 | 21,221 | 887,010 |
| Current income tax liabilities | 120 | – | – | – | – | 120 |
| Deferred income tax liabilities | 1,548 | – | – | – | – | 1,548 |
| Other non-financial liabilities | 1,444 | 303 | 89 | – | 164 | 2,000 |
| TOTAL NON-FINANCIAL LIABILITIES | 3,112 | 303 | 89 | – | 164 | 3,668 |
| TOTAL LIABILITIES | 576,240 | 251,225 | 41,221 | 607 | 21,385 | 890,678 |
| OPEN BALANCE SHEET POSITION | 117,391 | 21,924 | (17,884) | (607) | (323) | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2015:

| | RUB | USD 1 USD = 72.8827 RUB | EUR 1 EUR = 79.6972 RUB | Precious metals | Other currency | 31 December 2015 Total |
|--|----------------|----------------------------------|----------------------------------|--------------------|-------------------|------------------------------|
| Receivables on spot and derivative contracts | 122,130 | 241,554 | 58,766 | 612 | 165,904 | 588,966 |
| Payables on spot and derivative contracts | (118,470) | (264,375) | (40,850) | – | (165,271) | (588,966) |
| NET POSITION ON SPOT AND DERIVATIVE CONTRACTS | 3,660 | (22,821) | 17,916 | 612 | 633 | |
| TOTAL OPEN POSITION | 121,051 | (897) | 32 | 5 | 310 | |

| | RUB | USD 1 USD = 56.2584 RUB | EUR 1 EUR = 68.3427 RUB | Precious metals | Other currency | 31 December 2014 Total |
|---|----------------|----------------------------------|----------------------------------|--------------------|-------------------|------------------------------|
| ASSETS | | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 71,233 | 3,770 | 3,159 | – | 68 | 78,230 |
| Financial assets at fair value through profit or loss | 96,332 | 40,684 | 3,233 | – | 13,484 | 153,733 |
| Due from banks | 21,894 | 70,489 | 7,435 | – | 6,354 | 106,172 |
| Loans to customers | 527,671 | 142,810 | 6,408 | – | – | 676,889 |
| Investments available-for-sale | 4,983 | – | 10 | – | – | 4,993 |
| Investments held to maturity | 30,162 | 35,156 | – | – | – | 65,318 |
| Other financial assets | 2,269 | 22 | 299 | – | – | 2,590 |
| TOTAL FINANCIAL ASSETS | 754,544 | 292,931 | 20,544 | – | 19,906 | 1,087,925 |
| Property and equipment | 23,897 | – | – | – | – | 23,897 |
| Intangible assets | 1,405 | – | – | – | – | 1,405 |
| Current income tax assets | 1,550 | – | – | – | – | 1,550 |
| Deferred income tax asset | 2,092 | – | – | – | – | 2,092 |
| Other non-financial assets | 7,452 | 249 | 1,551 | – | 27 | 9,279 |
| TOTAL NON-FINANCIAL ASSETS | 36,396 | 249 | 1,551 | – | 27 | 38,223 |
| TOTAL ASSETS | 790,940 | 293,180 | 22,095 | – | 19,933 | 1,126,148 |
| LIABILITIES | | | | | | |
| Financial liabilities at fair value through profit or loss | 75,552 | 34,468 | 1,924 | – | 13,484 | 125,428 |
| Due to CBR | 44,027 | – | – | – | – | 44,027 |
| Due to banks | 54,709 | 67,688 | 10,050 | 1 | 2,446 | 134,894 |
| Customer accounts | 301,266 | 153,767 | 29,436 | 659 | 548 | 485,676 |
| Debt securities issued | 144,844 | 1,189 | 16 | – | – | 146,049 |
| Other provisions | 1,247 | 31 | 11 | – | – | 1,289 |
| Other financial liabilities | 7,111 | 65 | 1,098 | – | – | 8,274 |
| Subordinated debt | 4,927 | 38,094 | 3,422 | – | – | 46,443 |
| TOTAL FINANCIAL LIABILITIES | 633,683 | 295,302 | 45,957 | 660 | 16,478 | 992,080 |
| Current income tax liabilities | 117 | – | – | – | – | 117 |
| Deferred income tax liabilities | 919 | – | – | – | – | 919 |
| Other non-financial liabilities | 1,752 | 241 | 888 | – | 507 | 3,388 |
| TOTAL NON-FINANCIAL LIABILITIES | 2,788 | 241 | 888 | – | 507 | 4,424 |
| TOTAL LIABILITIES | 636,471 | 295,543 | 46,845 | 660 | 16,985 | 996,504 |
| OPEN BALANCE SHEET POSITION | 154,469 | (2,363) | (24,750) | (660) | 2,948 | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2014:

| | RUB | USD 1 USD = 56.2584 RUB | EUR 1 EUR = 68.3427 RUB | Precious metals | Other currency | 31 December 2014 Total |
|--|-----------------|----------------------------------|----------------------------------|--------------------|-------------------|------------------------------|
| Receivables on spot and derivative contracts | 256,286 | 615,622 | 82,097 | 662 | 128,612 | 1,083,279 |
| Payables on spot and derivative contracts | (281,337) | (613,462) | (57,056) | (7) | (131,417) | (1,083,279) |
| NET POSITION ON SPOT AND DERIVATIVE CONTRACTS | (25,051) | 2,160 | 25,041 | 655 | (2,805) | |
| TOTAL OPEN POSITION | 129,418 | (203) | 291 | (5) | 143 | |

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the RUB against the relevant foreign currencies (2014: 30%). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the period end is adjusted for a 30% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RUB weakens 30% against the relevant currency. For a 30% strengthening of the RUB against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

| | USD impact | | EUR impact | |
|-------------------|------------|------|------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Profit before tax | (269) | (61) | 10 | 87 |
| Other equity | (215) | (53) | 8 | 76 |

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is developed in line with the principles set out by its major shareholder Societe Generale and approved by the Group's Management Board. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Group include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Group.

Credit risk management and control are conducted using differentiated multilevel complex approach to evaluation of credit applications. Credit control is carried out at all stages of credit work and credit portfolio structuring. Credit risk policy is conducted in accordance with the following internal documents:

- Lending policy;
- Direction for credit operations.

The following methods of credit risk management are used:

- Complex credit risk analysis;
- Approval of credit risk limits for individuals and groups of clients;
- Control over maturity structure of assets;
- Limit and decision-making control;
- Planning spread between cash inflow and outflow, plan vs. actual analysis;
- Analysis of borrower's financial position, monitoring of financial position of guarantors;
- Current banking assets monitoring for management decisions-making.

Credit risk is evaluated by the following bodies:

- Credit Risks Department – complex analysis of the counterparty risk level;
- Credit Committee – decision (within local delegations) on Credit request on the basis of information prepared by Commercial block and credit risks assessment prepared by Credit Risks team;
- Risk Committee organized under Board of Directors – posterior control of credit quality of portfolio and credit risk level;
- Responsible department in Head Office, Paris – second level analysis of the counterparty risk level and decision on the credit request above Russia's local delegations.

The procedure for credit risk assumption comprises:

- Gathering of essential documents;
- Assessment of reliability and completeness of documents;
- Complex analysis of all risks which may occur;
- Making decisions about credit risk assumption;
- Legal capacity control of clients and their representatives

Internal and external ratings

The Group's rating system makes a key distinction between retail customers and corporate, bank and sovereign clients: for retail customer portfolios, internal models are used to measure credit risks. The Group uses calculated borrower's probability of default (PD) within one year and the percentage loss if the counterparty defaults (Loss Given Default, LGD) for credit risk assessment.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

In both cases a set of procedures defines the rules and roles relating to ratings (scope, frequency of rating review, rating approval procedure, etc.), split between Rosbank and SG respectively. Among other things, these procedures facilitate human judgement, which provides a critical view of the results and is an essential complement to the models for these portfolios. The Group's internal models thus enable a quantitative assessment of credit risks based on the probability of default of the counterparty and the loss given default. The final Obligor rating is included in the credit applications and incorporated in credit limit delegation policy. Thus, Obligor ratings are one of the criteria for determining the approval limits granted to operational staff and the risk function.

The Group's risks estimates are not excessively sensitive to changes in the economic environment, while being able to detect any deterioration of risks. The PD modelling for large corporates has also been calibrated against long-term default statistics obtained from an external rating agency.

The criteria for determining internal rating category are as follows:

| SG OG category | Criteria |
|----------------|---|
| 1-2 | High level of creditworthiness. Financial position is assessed as good and stable in the long term. |
| 3 | High level of creditworthiness. Financial position is assessed as good and stable in the long term. Some financial indicators are below 2 nd category. |
| 4 | Relatively high level of creditworthiness. Financial position is assessed as satisfactory and stable in the long term. |
| 5 | Average level of creditworthiness. Financial position is assessed as satisfactory and stable in the short term. |
| 6 | Creditworthiness below average. Key financial indicators are assessed as satisfactory and stable in the short term. |
| 7 | Creditworthiness below average. Key financial indicators are assessed as satisfactory, but their stability is doubtful. |
| 8 | Significant deterioration in the counterparty's financial situation with or without unpaid amount. |
| 9 | At least one default on payment has been recorded and a recovery procedure has been initiated. |
| 10 | The counterparty is the subject of a legal procedure. |

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets (except loans to customers) that are neither past due nor impaired held by the Group:

| | AAA | AA | A | BBB | <BBB | Not rated | 31 December 2015 Total mRUB |
|---|-------|--------|--------|--------|--------|-----------|-----------------------------------|
| Financial assets at fair value through profit or loss | 1,073 | – | 37,689 | – | 17,435 | 771 | 56,968 |
| Due from banks | – | 712 | 51,963 | 11,424 | 13,680 | 15,088 | 92,867 |
| Investments available-for-sale | – | – | – | – | 5,551 | – | 5,551 |
| Investments held to maturity | – | – | – | – | 78,408 | 1,174 | 79,582 |
| | AAA | AA | A | BBB | <BBB | Not rated | 31 December 2014 Total mRUB |
| Financial assets at fair value through profit or loss | – | 690 | 82,910 | 36,907 | 23,721 | 9,505 | 153,733 |
| Due from banks | – | 19,012 | 48,628 | 17,024 | 9,098 | 12,410 | 106,172 |
| Investments available-for-sale | – | – | – | 4,754 | – | 101 | 4,855 |
| Investments held to maturity | – | – | – | 65,318 | – | – | 65,318 |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

As of 31 December 2015 and 2014 the Balances with the Central Bank of the Russian Federation amounted to RUB 76,283 million and RUB 41,639 million, respectively. As of 31 December 2015 and 2014 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB- and BBB, respectively.

As of 31 December 2015 and 2014 unimpaired loans to customers comprise:

| Category | Neither past due nor impaired | Past due up to 1 month | Past due 1-3 months | Past due 3-6 months | Past due but not impaired | | 31 December 2015 Total not impaired mRUB |
|--|-------------------------------|------------------------|---------------------|---------------------|----------------------------|---------------------------------|---|
| | | | | | Past due 6 months and over | Total past due but not impaired | |
| Loans to individuals | 346,903 | 7,297 | – | – | – | 7,297 | 354,200 |
| Loans to legal entities | 231,529 | 190 | – | – | 25 | 215 | 231,744 |
| Total loans to customers not impaired | 578,432 | 7,487 | – | – | 25 | 7,512 | 585,944 |

| Category | Neither past due nor impaired | Past due up to 1 month | Past due 1-3 months | Past due 3-6 months | Past due but not impaired | | 31 December 2014 Total not impaired mRUB |
|--|-------------------------------|------------------------|---------------------|---------------------|----------------------------|---------------------------------|---|
| | | | | | Past due 6 months and over | Total past due but not impaired | |
| Loans to individuals | 426,009 | 6,584 | 3,137 | – | – | 9,721 | 435,730 |
| Loans to legal entities | 213,168 | 230 | 156 | 26 | – | 412 | 213,580 |
| Total loans to customers not impaired | 639,177 | 6,814 | 3,293 | 26 | – | 10,133 | 649,310 |

As of 31 December 2015 and 2014 the credit quality of loans to corporate customers that are neither past due nor impaired is presented below:

| Internal rating category | 31 December 2015 mRUB | 31 December 2014 mRUB |
|--------------------------|--------------------------|--------------------------|
| 1-2 | 3,643 | 556 |
| 3 | 9,249 | 821 |
| 4 | 44,095 | 48,893 |
| 5 | 133,511 | 109,324 |
| 6 | 39,237 | 50,804 |
| 7-10 | 1,794 | 2,770 |
| Total | 231,529 | 213,168 |

In respect to loans to individuals, the management of the Group bases its judgement for decision-making purposes on information on overdue periods for those loans.

The banking industry is generally exposed to credit risk through its financial assets. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Collateral management

Collateral can consist of physical assets in the form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments and securities and also insurance policies. Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity.

The Group proactively manages its risks by diversifying guarantees: physical collateral, personal guarantees and others. In addition, the Group has strengthened its policies relating to the acceptance and management of guarantees and collateral as well as their valuation (data collection on guarantees and collateral, deployment of operational procedures).

During the credit approval process, an assessment of the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations is undertaken.

The Credit Risk Department is responsible for validating the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan or upon the annual renewal of the credit application.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

| | Russia | Other CIS countries | OECD countries | Other non-OECD countries | 31 December 2015 Total |
|---|----------------|---------------------|-----------------|--------------------------|------------------------|
| ASSETS | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 103,225 | – | – | – | 103,225 |
| Financial assets at fair value through profit or loss | 18,211 | – | 38,757 | – | 56,968 |
| Due from banks | 39,222 | 22 | 28,059 | 25,564 | 92,867 |
| Loans to customers | 615,944 | – | 5 | 18,585 | 634,534 |
| Investments available-for-sale | 5,682 | – | 1 | – | 5,683 |
| Investments held to maturity | 76,453 | – | 3,129 | – | 79,582 |
| Other financial assets | 2,101 | – | – | – | 2,101 |
| TOTAL FINANCIAL ASSETS | 860,838 | 22 | 69,951 | 44,149 | 974,960 |
| Property and equipment | 20,105 | – | – | – | 20,105 |
| Intangible assets | 2,144 | – | – | – | 2,144 |
| Current income tax assets | 435 | – | – | – | 435 |
| Deferred income tax asset | 3,363 | – | – | – | 3,363 |
| Other non-financial assets | 10,150 | – | 22 | – | 10,172 |
| TOTAL NON-FINANCIAL ASSETS | 36,197 | – | 22 | – | 36,219 |
| TOTAL ASSETS | 897,035 | 22 | 69,973 | 44,149 | 1,011,179 |
| LIABILITIES | | | | | |
| Financial liabilities at fair value through profit or loss | 26,409 | – | 28,451 | – | 54,860 |
| Due to the Central Bank of the Russian Federation | 18,861 | – | – | – | 18,861 |
| Due to banks | 37,383 | 264 | 30,669 | 368 | 68,684 |
| Customer accounts | 487,606 | 110 | 2,551 | 26,440 | 516,707 |
| Debt securities issued | 159,795 | – | – | – | 159,795 |
| Other provisions | 1,315 | – | – | – | 1,315 |
| Other financial liabilities | 7,706 | – | 801 | – | 8,507 |
| Subordinated debt | – | – | 58,281 | – | 58,281 |
| TOTAL FINANCIAL LIABILITIES | 739,075 | 374 | 120,753 | 26,808 | 887,010 |
| Current income tax liabilities | 120 | – | – | – | 120 |
| Deferred income tax liabilities | 1,548 | – | – | – | 1,548 |
| Other non-financial liabilities | 1,841 | – | 159 | – | 2,000 |
| TOTAL NON-FINANCIAL LIABILITIES | 3,509 | – | 159 | – | 3,668 |
| TOTAL LIABILITIES | 742,584 | 374 | 120,912 | 26,808 | 890,678 |
| NET POSITION | 154,451 | (352) | (50,939) | 17,341 | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

| | Russia | Other CIS countries | OECD countries | Other non-OECD countries | 31 December 2014 Total |
|---|----------------|---------------------|-----------------|--------------------------|------------------------|
| ASSETS | | | | | |
| Cash and balances with the Central Bank of the Russian Federation | 78,230 | – | – | – | 78,230 |
| Financial assets at fair value through profit or loss | 62,752 | – | 90,981 | – | 153,733 |
| Due from banks | 35,767 | 5 | 67,954 | 2,446 | 106,172 |
| Loans to customers | 662,815 | 304 | 4,779 | 8,991 | 676,889 |
| Investments available-for-sale | 4,987 | – | 6 | – | 4,993 |
| Investments held to maturity | 65,318 | – | – | – | 65,318 |
| Other financial assets | 2,590 | – | – | – | 2,590 |
| TOTAL FINANCIAL ASSETS | 912,459 | 309 | 163,720 | 11,437 | 1,087,925 |
| Property and equipment | 23,897 | – | – | – | 23,897 |
| Intangible assets | 1,405 | – | – | – | 1,405 |
| Current income tax assets | 1,550 | – | – | – | 1,550 |
| Deferred income tax asset | 2,092 | – | – | – | 2,092 |
| Other non-financial assets | 9,252 | – | 27 | – | 9,279 |
| TOTAL NON-FINANCIAL ASSETS | 38,196 | – | 27 | – | 38,223 |
| TOTAL ASSETS | 950,655 | 309 | 163,747 | 11,437 | 1,126,148 |
| LIABILITIES | | | | | |
| Financial liabilities at fair value through profit or loss | 37,575 | – | 87,853 | – | 125,428 |
| Due to the Central Bank of the Russian Federation | 44,027 | – | – | – | 44,027 |
| Due to banks | 53,470 | 34 | 78,941 | 2,449 | 134,894 |
| Customer accounts | 449,395 | 50 | 2,668 | 33,563 | 485,676 |
| Debt securities issued | 144,894 | – | 1,155 | – | 146,049 |
| Other provisions | 1,289 | – | – | – | 1,289 |
| Other financial liabilities | 7,482 | – | 792 | – | 8,274 |
| Subordinated debt | – | – | 46,443 | – | 46,443 |
| TOTAL FINANCIAL LIABILITIES | 738,132 | 84 | 217,852 | 36,012 | 992,080 |
| Current income tax liabilities | 117 | – | – | – | 117 |
| Deferred income tax liabilities | 919 | – | – | – | 919 |
| Other non-financial liabilities | 2,823 | – | 565 | – | 3,388 |
| TOTAL NON-FINANCIAL LIABILITIES | 3,859 | – | 565 | – | 4,424 |
| TOTAL LIABILITIES | 741,991 | 84 | 218,417 | 36,012 | 996,504 |
| NET POSITION | 208,664 | 225 | (54,670) | (24,575) | |

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Other risks (Strategic risk)

Strategic risk emerges in the Group as a result of errors (failures) in the processes of decision making, defining the strategy of activities and development for the Group (strategic management), improper execution of the decisions and inability of the Bank management bodies to take into account changes in external factors.

In the process of its activity the Group follows its strategy which shows its main long-term objectives, in accordance with the shareholders' and management's point of view; the main competitive advantages in key market segments, and also a program for achieving these objectives; qualitative and quantitative benchmarks of the Group economic development.

Tasks and goals defined in the strategy are taken into account in decision making process. To minimize strategic risk the Group monitors the implementation of its strategy, macroeconomic and market conditions that were taken into account in the strategy, and analyzes all the current trends. Achieving strategic objectives is embedded in the KPI system and thus is taken into account in Management assessment.

Management and control of this risk is indirectly carried out in the frames of other risks management, which realization directly affects the realization of strategic risk.

42. Subsequent events

In February 2016 Red and Black Prime Russia MBS No.1 Limited LLC was liquidated.

In January-April 2016 the following bonds were fully redeemed:

| Issuer | Issue date | Maturity date | Debt volume, mRUR | Annual coupon rate, % |
|-------------------|------------|---------------|----------------------|--------------------------|
| Rosbank | 04.04.2013 | 04.04.2016 | 1,000 | 9.4 |
| Delta Credit Bank | 02.04.2013 | 02.04.2016 | 5,000 | 8.5 |
| Rosbank | 01.03.2013 | 01.03.2016 | 10,000 | 8.5 |
| Rosbank | 31.01.2013 | 31.01.2016 | 5,000 | 8.8 |
| Rosbank | 30.01.2013 | 30.01.2016 | 5,000 | 8.8 |
| Rosbank | 15.01.2013 | 15.01.2016 | 1,300 | 10.2 |

In February and March 2016 the following new bond was issued:

| Issuer | Issue date | Maturity date | Debt volume, mRUR | Annual coupon rate, % |
|-------------------|------------|---------------|----------------------|--------------------------|
| Delta Credit Bank | 30.03.2016 | 30.03.2019 | 5,000 | 10.6 |
| Rusfinance Bank | 26.02.2016 | 26.02.2021 | 5,000 | 11.7 |