Home Credit and Finance Bank

Consolidated Financial Statements
for the year ended 31 December 2015

Contents

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Auditors' Report

To the Participants and the Council of OOO "Home Credit and Finance Bank"

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: OOO "Home Credit and Finance Bank".

Registered by the Central Bank of Russian Federation on 19 June 1990, Registration No. 316.

Registered in the Unified State Register of Legal Entities on 4 October 2002 by the Authority of the Ministry of taxes and levies of the Russian Federation in Moscow, Registration No. 1027700280937.

Address of audited entity: 8/1, Pravda street, Moscow, Russian Federation, 125040.

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

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

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

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

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

Opinion

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

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

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

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

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

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

Our findings from the procedures performed are reported below.

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

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

- Based on our procedures with respect to compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2015, the Bank's internal audit function was subordinated to, and reported to, the Council, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2015, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2015, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2015, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.
- as at 31 December 2015, the Council and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2015 the Council and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

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

Shevarenkov E.V.

Director, power of attorney dated 16 March 2015 No. 155/15

JSC KPMG

11 March 2016

Moscow, Russian Federation

КПМГ
KPMG

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	Note	2015 MRUB	2014 MRUB
Interest income	4	60,430	74,439
Interest expense	4	(30,889)	(24,184)
Net interest income		**29,541**	**50,255**
Fee and commission income	5	15,499	21,254
Fee and commission expense	6	(2,690)	(2,872)
Net fee and commission income		**12,809**	**18,382**
Other operating income, net	7	1,324	1,270
Operating income		**43,674**	**69,907**
Impairment losses on loans to customers	8	(33,509)	(48,837)
Impairment losses on property, equipment and intangible assets	8	(216)	(650)
Impairment recovery/(losses) on other assets	8	1	(14)
General administrative expenses	9	(20,489)	(26,230)
Operating expenses		**(54,213)**	**(75,731)**
Loss before tax		**(10,539)**	**(5,824)**
Income tax benefit	10	1,725	1,300
Loss for the year		**(8,814)**	**(4,524)**

The consolidated financial statements as set out on pages 6 to 69 were approved by the Board of Management on 11 March 2016.

Chairman of the Board of Management

Y. Andresov

ООО "ХКФ Банк" HCF Bank

Chief Financial Officer

I. Kolikova

The consolidated statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2015 MRUB	2014 MRUB
Loss for the year, recognised in consolidated statement of profit or loss	**(8,814)**	**(4,524)**
Other comprehensive income that is or may be reclassified subsequently to profit or loss		
Revaluation reserve for financial assets available for sale:		
- net change in fair value, net of tax	(218)	(218)
- net change in fair value transferred to profit or loss, net of tax	245	100
Cash flow hedge reserve:		
- effective portion of changes in fair value, net of tax	(1,087)	6,980
- net amount transferred to profit or loss, net of tax	458	(6,316)
Effect of foreign currency translation	(2,740)	2,641
Other comprehensive (loss)/income for the year, net of tax	**(3,342)**	**3,187**
Total comprehensive loss for the year	**(12,156)**	**(1,337)**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

ООО "ХКФ Банк" HCF Bank

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

ASSETS	Note	2015 MRUB	2014 MRUB
Cash and cash equivalents	11	33,500	33,862
Placements with banks and other financial institutions	12	9,068	15,372
Loans to customers	13	178,418	244,779
Positive fair value of derivative instruments	14	8,217	9,570
Financial assets available for sale	15	22,240	18,120
Property, equipment and intangible assets	16	8,835	11,234
Assets classified as held for sale		163	390
Investment in associate		121	154
Deferred tax asset	23	5,603	2,542
Current income tax receivable		312	823
Other assets	17	1,446	1,894
Total assets		**267,923**	**338,740**
LIABILITIES AND EQUITY			
Liabilities			
Debt securities issued	18	10,996	17,323
Subordinated debt	19	31,741	37,259
Due to banks and other financial institutions	20	3,390	38,796
Current accounts and deposits from customers	21	178,157	187,263
Negative fair value of derivative instruments	22	244	163
Deferred tax liability	23	33	37
Other liabilities	24	3,708	5,251
Total liabilities		**228,269**	**286,092**
Equity			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Revaluation reserve for financial assets available for sale		(86)	(113)
Cash flow hedge reserve		37	666
Translation reserve		175	2,915
Retained earnings		24,491	34,143
Total equity		**39,654**	**52,648**
Total liabilities and equity		**267,923**	**338,740**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Attributable to equity holders of the Group						
MRUB	**Charter capital**	**Other capital contributions**	**Revaluation reserve for financial assets available for sale**	**Cash flow hedge reserve**	**Transla-tion reserve**	**Retained earnings**	**Total**
Balance at 1 January 2014	**4,406**	**10,631**	**5**	**2**	**274**	**39,878**	**55,196**
Loss for the year	-	-	-	-	-	(4,524)	(4,524)
Revaluation reserve for financial assets available for sale:							
- net change in fair value, net of tax	-	-	(218)	-	-	-	(218)
- net change in fair value transferred to profit or loss, net of tax	-	-	100	-	-	-	100
Cash flow hedge reserve:							
- effective portion of changes in fair value, net of tax	-	-	-	6,980	-	-	6,980
- net amount transferred to profit or loss, net of tax	-	-	-	(6,316)	-	-	(6,316)
Effect of foreign currency translation	-	-	-	-	2,641	-	2,641
Total comprehensive loss for the year	-	-	(118)	664	2,641	(4,524)	(1,337)
Dividends paid	-	-	-	-	-	(1,211)	(1,211)
Balance at 31 December 2014	**4,406**	**10,631**	**(113)**	**666**	**2,915**	**34,143**	**52,648**
Balance at 1 January 2015	**4,406**	**10,631**	**(113)**	**666**	**2,915**	**34,143**	**52,648**
Loss for the year	-	-	-	-	-	(8,814)	(8,814)
Revaluation reserve for financial assets available for sale:							
- net change in fair value, net of tax	-	-	(218)	-	-	-	(218)
- net change in fair value transferred to profit or loss, net of tax	-	-	245	-	-	-	245
Cash flow hedge reserve:							
- effective portion of changes in fair value, net of tax	-	-	-	(1,087)	-	-	(1,087)
- net amount transferred to profit or loss, net of tax	-	-	-	458	-	-	458
Effect of foreign currency translation	-	-	-	-	(2,740)	-	(2,740)
Total comprehensive loss for the year	-	-	27	(629)	(2,740)	(8,814)	(12,156)
Dividends paid	-	-	-	-	-	(838)	(838)
Balance at 31 December 2015	**4,406**	**10,631**	**(86)**	**37**	**175**	**24,491**	**39,654**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

ООО "ХКФ Банк" HCF Bank МОСКВА

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2015 MRUB	2014 MRUB
Cash flow from operating activities			
Interest received		60,909	78,960
Interest paid		(31,596)	(29,264)
Fees and commissions received		15,337	22,231
Fees and commissions paid		(2,618)	(2,923)
Net receipts/(payments) from foreign exchange transactions		1,186	(1,364)
Other operating income received		5,062	1,023
Administrative and other operating expenses paid		(16,642)	(25,611)
Income tax paid		(516)	(799)
Cash flows from operating activities before changes in operating assets and liabilities		**31,122**	**42,253**
Changes in operating assets and liabilities			
Net decrease/(increase) in placements with banks and other financial institutions		7,950	(5,491)
Net increase in financial assets available for sale		(3,499)	(9,373)
Net decrease in loans to customers		21,094	635
Net decrease in other assets		220	426
Net decrease in current accounts and deposits from customers		(8,658)	(34,876)
Net (decrease)/increase in due to banks and other financial institutions		(32,278)	19,125
Net decrease in other liabilities		(108)	(162)
Net cash from operating activities		**15,843**	**12,537**
Cash flows used in investing activities			
Dividends from associate		165	124
Proceeds from sale of property and equipment		117	10
Acquisition of property, equipment and intangible assets		(1,498)	(2,215)
Net cash used in investing activities		**(1,216)**	**(2,081)**
Cash flows from financing activities			
Proceeds from the issue of debt securities		-	1,411
Repayments of debt securities issued		(4,991)	(26,325)
Repayments of subordinated debt		(10,861)	(2,066)
Dividends paid		(838)	(1,211)
Net cash used in financing activities		**(16,690)**	**(28,191)**
Net decrease in cash and cash equivalents		(2,063)	(17,735)
Effect of exchange rate changes on cash and cash equivalents		1,701	8,274
Cash and cash equivalents at the beginning of the year	11	33,862	43,323
Cash and cash equivalents at the end of the year	11	**33,500**	**33,862**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. Description of the Group

OOO "Home Credit and Finance Bank" (the "Bank") was established in the Russian Federation as a Limited Liability Company and was granted its banking licence in 1990. In 2002 the Bank was acquired by Home Credit Group. On 13 October 2011 the Bank received General Banking Licence #316 from the Central Bank of Russia (the "CBR"). The Bank together with its subsidiaries is further referred to as the Group.

Registered office

8/1 Pravda st
Moscow 125040
Russian Federation

Participants	Country of incorporation	Ownership interest (%) 2015	2014
Home Credit B.V.	The Netherlands	99.99	99.99
Home Credit International a.s.	Czech Republic	0.01	0.01

The ultimate controlling owner is Petr Kellner, who exercises control over the Group through PPF Group N.V. registered in the Netherlands.

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 2015	2014
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Bonus Center Operations (LLC)*	Russian Federation	100.00	100.00
Bank Home Credit (SB JSC)	Kazakhstan	100.00	100.00
Eurasia Capital S.A.	Luxemburg	see below	see below
Eurasia Structured Finance No.1 S.A.*	Luxemburg	see below	see below
HC Finance (LLC)	Russian Federation	see below	see below
Eurasia Structured Finance No.3 B.V.	The Netherlands	see below	see below
HC Finance No.2 (LLC)	Russian Federation	see below	see below
Eurasia Structured Finance No.4 B.V.	The Netherlands	see below	see below

Eurasia Capital S.A., Eurasia Structured Finance No.1 S.A., HC Finance (LLC), Eurasia Structured Finance No.3 B.V., HC Finance No.2 (LLC) and Eurasia Structured Finance No.4 B.V. are special purpose entities established to facilitate the Group's issues of debt securities and subordinated debt.

** As at 31 December 2015 Eurasia Structured Finance No.1 S.A. and Bonus Center Operations (LLC) were in the process of liquidation.*

Associate	Country of incorporation	Ownership interest (%) 2015	2014
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00

Council		Board of Management	
Jiri Smejc	Chairman	Yuriy Andresov	Chairman
Irina Kolikova	Deputy Chairman	Dmitri Mosolov	First Deputy Chairman
Galina Vaisband	Member	Artem Aleshkin	Deputy Chairman
Yuly Tai	Member	Martin Schaffer	Deputy Chairman
		Aleksandr Antonenko	Deputy Chairman
		Olga Egorova	Member

Artem Aleshkin and Aleksandr Antonenko became the members of the Board of Management starting from 1 June 2015.

1. Description of the Group (continued)

Principal activities

The activities of the Group are regulated by the CBR and the activities of Bank Home Credit (SB JSC) are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The principal activity of the Group is the provision of the full range of banking products and services to individual customers across the Russian Federation and the Republic of Kazakhstan such as lending, deposit taking, saving and current accounts service and maintenance, payments, debit cards issuance and maintenance, Internet-banking, payroll and other banking services.

The loans are offered to existing and new customers across the Russian Federation and the Republic of Kazakhstan via a national wide distribution network comprising variable channels: own banking offices, points of sale at retailers, Russian Post branches, Kazakh Post branches and other third parties.

As at 31 December 2015 the Bank's distribution network comprised the head office in Moscow and 7 branches in Ufa, Rostov-on-Don, Saint-Petersburg, Yekaterinburg, Novosibirsk, Khabarovsk, Nizhniy Novgorod, 333 standard banking offices, 3,919 loan offices, 78 regional centres, 2 representative offices and over 88 thousand points of sale in the Russian Federation and several Russian post offices. As at 31 December 2015 the Bank's ATM network comprised 830 ATMs and payment terminals across the Russian Federation.

As at 31 December 2015 the distribution network in Kazakhstan comprised 41 standard banking offices, 5,848 loan offices and points of sale, 235 Kazakhstan post offices and 347 ATMs and payment terminals across the country.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2015 comprise the Bank and its subsidiaries.

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost or amortised historical cost basis except that financial instruments at fair value through profit or loss and finncial assets available for sale are stated at fair value. Other financial assets and liabilities are stated at amortised cost. Non-financial assets and liabilities are stated at historical cost, restated for the effects of inflation as described in Note 3(b).

(c) Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management determined functional currency of the Bank and the majority of its subsidiaries, except Bank Home Credit (SB JSC), to be the RUB as it reflects the economic substance of the majority of underlying events and circumstances of the Group. The functional currency of Bank Home Credit (SB JSC) is Kazahstan Tenge ("KZT"). The RUB is the Group’s presentation currency for the purposes of these consolidated financial statements. Financial information presented in RUB is rounded to the nearest million unless otherwise stated.

(d) Basis of consolidation

(i) Business combinations

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

2. Basis of preparation (continued)

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iv) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions and disposals of non-controlling interests

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

2. Basis of preparation (continued)

(e) Non-controlling interests

Non-controlling interests are the equity interests in a subsidiary not attributable, directly or indirectly, to the Group.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Group. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of profit or loss and comprehensive income.

(f) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in the following:
- Loan impairment - Notes 3(j) and 13;
- Estimates of fair values of financial instruments - Note 25(h);
- Fee and commission income from insurance - Note 3(o).

(g) Equity

According to the Charter of the Bank a participant of a Limited Liability Company has the right to withdraw from the company unilaterally. In such event the Bank has a liability to pay the participant its pro rata share of the Bank' net assets calculated in accordance with the Russian Accounting Standards.

This puttable financial instrument includes the obligation of the Bank to redeem participant's interest, however, management believes that exception conditions according to IAS 32 *Financial Instruments: Presentation* apply, including the total expected cash flows attributable to the instrument over its life are based substantially on change in recognized net assets calculated in accordance with IFRS, due to the fact that they are not significantly different from the Bank's net assets calculated in accordance with the Russian Accounting Standards.

As the result the Bank presents charter capital, other capital contributions, revaluation reserve for financial assets available for sale, cash flow hedge reserve, retained earnings and translation reserve as equity.

(h) Business environment

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

Current economic and geopolitical environment has impacted the Russian economy in a number of ways, including lower growth, a volatile currency, liquidity strains and financial stress on consumers. These and other factors create risks for the Group's local business activities. The Group's management takes all the necessary steps to support the economic stability of the Group and its operations in the current circumstances.

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

3. Significant accounting policies

(a) Foreign currency transactions

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

(b) Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(c) Cash and cash equivalents

The Group considers cash, nostro accounts, amounts receivable under reverse repurchase agreements, and term placements with the CBR and the NBRK, banks and other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposits with the CBR and the NBRK are not considered to be cash equivalents due to restrictions on its withdrawability.

(d) Financial instruments

(i) Classification

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

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

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial classification.

3. Significant accounting policies (continued)

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

Held-to-maturity investments are those non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than loans and receivables and instruments designated as at fair value through profit or loss or as available-for-sale.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables and held to maturity investments which are measured at amortised cost less impairment losses and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

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

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

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

3. Significant accounting policies (continued)

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

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

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Gains and losses on financial assets available for sale are recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial assets available for sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of profit or loss.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectable.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated statement of profit or loss over the life of the agreement.

3. Significant accounting policies (continued)

Securities purchased under agreements to resell are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the agreement using the effective interest method.

(viii) Derivative financial instruments, hedge accounting

The Group uses derivatives both for hedge accounting as determined in accordance with IAS 39 and to economically hedge its exposure to foreign exchange and interest rate risk arising from financing activities. The latter do not qualify for hedge accounting and thus any gain or loss on the derivative financial instruments is recognised in the consolidated statement of profit or loss.

The Group started applying hedge accounting for cash flow hedges against currency risk. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

(ix) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

(e) Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

3. Significant accounting policies (continued)

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

(f) Offsetting

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

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed on a straight line basis.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The estimated useful lives are as follows:

Computers and equipment	4 years
Vehicles	5 years
Furniture	5 years
Leasehold improvements	5 years
Buildings	10-50 years

3. Significant accounting policies (continued)

(h) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost less impairment losses.

(ii) Other intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of profit or loss as an expense as incurred.

(iii) Amortisation

Amortisation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of intangible assets. Goodwill is not amortised; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software	1-10 years
Licenses	1-10 years

(i) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Generally, non-current assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

(j) Impairment

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

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

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

3. Significant accounting policies (continued)

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the consolidated statement of profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3. Significant accounting policies (continued)

(iv) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the consolidated statement of profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Pensions

The Governments of the respective countries are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the Government to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(l) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(m) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow 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.

3. Significant accounting policies (continued)

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(n) Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss as they accrue, taking into account the effective rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest basis.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate. Such items are amortised based on average actual historic lives of the related loans.

(o) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided. The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Bank does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company.

Penalty income is recognised in the consolidated statement of profit or loss when the penalty is charged to a customer, taking into account its collectability.

(p) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(q) New standards and interpretations not yet adopted

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

IFRS 9 *Financial Instruments*, published in July 2014, is intended ultimately to replace International *Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement*. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the condensed consolidated interim financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

3. Significant accounting policies (continued)

IFRS 15 *Revenue from Contracts* with Customers supersedes IAS 11 *Construction Contracts*; IAS 18 *Revenue* ; IFRIC 13 *Customer Loyalty Programmes*; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. The standard will be effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The Group has not yet analysed the likely impact of the standard on its financial position or performance. The Group does not intend to adopt this standard early.

Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(r) Comparative numbers

Result on hedging derivative instruments for the year ended 31 December 2014 was reclassified from interest expense in the amount of MRUB 671 to other operating income in order to conform the presentation in 2015. The reclassification had no impact on the Group's result or equity.

4. Interest income and interest expense

	2015 MRUB	2014 MRUB
Interest income		
Loans to individuals	55,114	72,073
Financial assets available for sale	2,237	483
Placements with banks and other financial institutions	1,484	1,209
Amounts receivable under reverse repurchase agreements	1,418	668
Loans to corporations	177	6
	60,430	**74,439**
Interest expense		
Current accounts and deposits from customers	24,692	16,740
Subordinated debt	3,083	2,700
Due to banks and other financial institutions	1,696	2,286
Debt securities issued	1,252	2,044
Amounts payable under repurchase agreements	166	414
	30,889	**24,184**

Included within interest income on loans to individuals for the year ended 31 December 2015 is a total of MRUB 2,682 (2014: MRUB 4,955) accrued on impaired financial assets.

5. Fee and commission income

	2015 MRUB	2014 MRUB
Insurance agent commissions	9,692	13,971
Contractual penalties from customers	1,921	3,508
Fees from retailers	1,317	673
Cash operations	1,280	2,063
Customer payments processing and account maintenance	924	708
Pension agent commissions	254	105
Other	111	226
	15,499	**21,254**

6. Fee and commission expense

	2015 MRUB	2014 MRUB
Payments to the Deposit Insurance Agency	740	791
Cash transactions	726	898
Customer payments processing and account maintenance	472	445
Credit bureau	356	130
State duties	282	517
Other	114	91
	2,690	**2,872**

7. Other operating income, net

	Note	2015 MRUB	2014 MRUB
Net gain/(loss) on spot transactions and currency derivatives		2,047	(1,446)
Gain from sale of loans	13	612	302
Net gain on early redemption of subordinated debt		567	-
Share of the profit of associate		132	115
Net realised gain on disposal of financial assets available for sale		108	11
Net gain on early redemption of debt securities issued		18	347
Net (loss)/gain on interest rate derivatives		(143)	532
Hedging derivatives instruments		(535)	(671)
(Loss)/gain from foreign exchange revaluation of financial assets and liabilities		(1,401)	2,095
Other		(81)	(15)
		1,324	**1,270**

8. Impairment losses

	Note	2015 MRUB	2014 MRUB
Cash loans	13	19,401	31,153
Credit card loans	13	9,088	11,765
POS loans	13	4,745	5,849
Mortgage loans	13	276	96
Property, equipment and intangible assets	16	216	650
Other assets	17	(1)	14
Car loans	13	(1)	(8)
Loans to corporations	13	-	(18)
		33,724	**49,501**

9. General administrative expenses

	Note	2015 MRUB	2014 MRUB
Personnel related expenses		9,121	11,078
Depreciation and amortisation	16	2,569	2,781
Payroll related taxes		2,055	2,336
Occupancy	28	1,593	3,137
Professional services		1,441	1,453
Telecommunication and postage		965	1,581
Repairs and maintenance		621	1,028
Information technology		605	436
Taxes other than income tax		279	269
Travel expenses		200	303
Advertising and marketing		135	679
Other		905	1,149
		20,489	**26,230**

9. General administrative expenses (continued)

Business optimisation programme

During 2015 the Group continued its business optimisation programme in the Russian Federation to increase effectiveness of business and optimise costs, including staff cost optimisation and closure of less effective offices. As at 31 December 2015 provision for restructuring under the business optimisation programme mentioned above amounted to MRUB 38 (Note 24) (as at 31 December 2014: MRUB 98). As a result of closure of offices the Group recognised in 2015 general administrative expenses of MRUB 812 (2014: MRUB 776).

10. Income tax benefit

	2015 MRUB	2014 MRUB
Current tax expense	(1,066)	(567)
Current tax (underprovided)/overprovided in previous periods	(107)	302
Deferred tax benefit	2,898	1,565
	1,725	**1,300**

Reconciliation of effective tax rate

	2015 MRUB	2014 MRUB
Loss before tax	**(10,539)**	**(5,824)**
Income tax benefit using the applicable tax rate 20%	2,107	1,165
Dividends from Bank Home Credit (SB JSC)	(186)	(132)
Non-deductible costs	(101)	(49)
Income taxed at lower tax rates	12	14
Current tax (underprovided)/overprovided in previous periods	(107)	302
	1,725	**1,300**

The tax effects relating to components of other comprehensive income comprise:

	2015			2014		
MRUB	**Amount before tax**	**Tax (expense)/ benefit**	**Amount net of tax**	**Amount before tax**	**Tax benefit/ (expense)**	**Amount net of tax**
Net change in fair value of financial assets available for sale	34	(7)	27	(148)	30	(118)
Cash flow hedge reserve	(787)	158	(629)	830	(166)	664
	(753)	**151**	**(602)**	**682**	**(136)**	**546**

11. Cash and cash equivalents

	2015 MRUB	2014 MRUB
Cash	9,207	16,382
Nostro accounts with the CBR	8,603	5,184
Amounts receivable under reverse repurchase agreements	6,539	-
Placements with banks and other financial institutions due within one month	5,173	8,296
Placements with the CBR	3,000	4,000
Nostro accounts with the NBRK	978	-
	33,500	**33,862**

Placements with banks and other financial institutions shown above comprise nostro accounts and loans and deposits.

Placements with banks and other financial institutions

Nostro accounts	2015 MRUB	2014 MRUB
OECD banks	3,174	5,092
Largest 50 Russian banks	1,513	483
Other	486	448
	5,173	**6,023**

Loans and deposits	2015 MRUB	2014 MRUB
Largest 50 Russian banks	-	2,000
Other	-	273
	-	**2,273**

Amounts receivable under reverse repurchase agreements

	2015 MRUB	2014 MRUB
Largest 50 Russian banks	6,539	-
	6,539	**-**

Collateral for amounts receivable under reverse repurchase agreements

	2015 MRUB	2014 MRUB
Largest 50 Russian banks	2,643	-
Government and government-owned institutions	2,376	-
Leading Russian oil and gas companies	1,742	-
Other	649	-
	7,410	**-**

None of the items described above are impaired or past due.

12. Placements with banks and other financial institutions

	2015 MRUB	**2014 MRUB**
Term deposits with banks and other financial institutions due after one month	5,887	11,640
Placements with MasterCard and VISA	1,702	1,314
Minimum reserve deposit with the CBR	1,176	1,988
Minimum reserve deposit with the NBRK	303	430
	9,068	**15,372**

Term deposits with banks and other financial institutions due after one month

	2015 MRUB	**2014 MRUB**
OECD non-banking financial institutions	5,885	11,639
Other Russian non-banking financial institutions	2	1
	5,887	**11,640**

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR whose withdrawability is restricted.

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of particular Bank Home Credit's (SB JSC) liabilities. Bank Home Credit (SB JSC) is required to comply with these requirements by maintaining average cash in local currency and nostro accounts with the NBRK equal or in excess of the average minimum requirements.

Placements with MasterCard and VISA are security deposits whose withdrawability is restricted.

None of the items described above are impaired or past due.

13. Loans to customers

	2015 MRUB	**2014 MRUB**
Cash loans	114,623	177,523
POS loans	54,949	63,636
Credit card loans	30,513	46,420
Mortgage loans	4,235	4,991
Loans to corporations	3,635	51
Car loans	18	42
Impairment allowance	(29,555)	(47,884)
	178,418	**244,779**

As at 31 December 2015 Cash loans receivables shown above include loans with a gross value of MRUB 77,991 originated under new underwriting criteria since 1 September 2013 (as at 31 December 2014: MRUB 83,991).

13. Loans to customers (continued)

The Group provides point-of-sale loans ("POS loans") for any purpose including household goods, services and other purposes. Credit cards are generally issued for 3 years and have an average credit limit of TRUB 71 and require a minimum monthly payment of 5% of the outstanding credit balance on the respective credit card, credit cards issued since 21 June 2015 require a minimum monthly payment of 5% of the outstanding principal balance on the respective credit card plus other charges (31 December 2014: 3 years and TRUB 62 respectively and a minimum monthly payment of 5% of the outstanding credit balance on the respective credit card). As at 31 December 2015 the average loan-to-value ratio for mortgage loans was 58% (as at 31 December 2014: 60%).

The following table provides the average size of loans granted and the average contractual term by type of loans as at 31 December:

	2015		2014	
	Size TRUB	**Term Months**	**Size TRUB**	**Term Months**
Cash loans	181.3	44	181.2	39
POS loans	35.0	19	40.2	20

Analysis of collateral

The following table provides the analysis of loan portfolio by type of collateral as at 31 December:

	2015		2014	
	Portfolio MRUB	**% of loan portfolio**	**Portfolio MRUB**	**% of loan portfolio**
Real estate	7,870	4	4,991	2
Motor vehicles	18	-	42	-
No collateral	200,085	96	287,630	98
Total	**207,973**		**292,663**	

The amounts shown in the table above represent the gross amount of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Car loans are secured by underlying motor vehicles. Credit card loans, cash loans and POS loans are not secured.

As at 31 December 2015 loans to corporations included secured loans with the total carrying amount of MRUB 3,635 pledged with mortgages of MRUB 5,600 and loan-to-value ratio of 65% (as at 31 December 2014: none).

Overdue mortgage and car loans with a gross value of MRUB 918 (31 December 2014: MRUB 594) are secured by collateral with a fair value of MRUB 1,513 (31 December 2014: MRUB 1,087). For the remaining overdue loans to customers with a gross value of MRUB 37,039 (31 December 2014: MRUB 63,355) there is no collateral.

Collateral does not have a significant effect on the amount of loan impairment allowance.

As at 31 December 2015 repossessed collateral for mortgage loans amounted to MRUB 163 (31 December 2014: MRUB 258).

13. Loans to customers (continued)

	2015			2014		
MRUB	**Gross**	**Impairment allowance**	**Carrying amount**	**Gross**	**Impairment allowance**	**Carrying amount**
Loans to individuals						
Cash loans						
Current	93,007	(2,523)	90,484	136,699	(1,867)	134,832
Days past due:						
1 – 90	6,345	(3,144)	3,201	10,784	(6,580)	4,204
90 – 360	15,271	(11,937)	3,334	30,040	(23,686)	6,354
Total	**114,623**	**(17,604)**	**97,019**	**177,523**	**(32,133)**	**145,390**
POS loans						
Current	49,023	(422)	48,601	55,330	(410)	54,920
Days past due:						
1 – 90	1,692	(856)	836	2,579	(1,276)	1,303
90 – 360	4,234	(3,328)	906	5,727	(4,512)	1,215
Total	**54,949**	**(4,606)**	**50,343**	**63,636**	**(6,198)**	**57,438**
Credit card loans						
Current	21,016	(401)	20,615	32,195	(725)	31,470
Days past due:						
1 – 90	2,750	(1,107)	1,643	4,760	(1,892)	2,868
90 – 360	6,747	(5,331)	1,416	9,465	(6,617)	2,848
Total	**30,513**	**(6,839)**	**23,674**	**46,420**	**(9,234)**	**37,186**
Mortgage loans						
Current	3,325	(43)	3,282	4,410	(57)	4,353
Days past due:						
1 – 90	223	(56)	167	305	(88)	217
90 – 360	355	(170)	185	170	(81)	89
more than 360	332	(231)	101	106	(82)	24
Total	**4,235**	**(500)**	**3,735**	**4,991**	**(308)**	**4,683**
Car loans						
Current	10	-	10	29	-	29
Days past due:						
1 – 90	1	-	1	2	(1)	1
90 – 360	2	(2)	-	4	(3)	1
more than 360	5	(4)	1	7	(7)	-
Total	**18**	**(6)**	**12**	**42**	**(11)**	**31**
Loans to corporations						
Current	3,635	-	3,635	51	-	51
Total	**3,635**	**-**	**3,635**	**51**	**-**	**51**

13. Loans to customers (continued)

	2015		**2014**	
	NPLs MRUB	**Provision coverage %**	**NPLs MRUB**	**Provision coverage %**
Cash loans	15,271	115	30,040	107
Credit card loans	6,747	101	9,465	98
POS loans	4,234	109	5,727	108
Mortgage loans	687	73	276	112
Car loans	7	86	11	100
Total	**26,946**	**110**	**45,519**	**105**

Non-performing loans are defined by the Group as loans and receivables overdue for more than 90 days. Loans and receivables, except for mortgage and car loans, overdue for more than 360 days are written off. Mortgage and car loans and receivables overdue over 720 days are written off. Some of the loans written off can be subsequently sold. During the year ended 31 December 2015 the Group sold NPLs with a gross value including penalties of MRUB 16,553 for MRUB 182 (year ended 31 December 2014: MRUB 43,908 for MRUB 3,260).

During the year ended 31 December 2015 the Group sold performing cash and POS loans to a related party with the gross value of MRUB 10,122 for MRUB 10,734. The gain of MRUB 612 is recognised in other operating income, net (31 December 2014: performing cash and POS loans with the gross value of MRUB 24,115 for MRUB 24,417, with a gain of MRUB 302) (Note 7).

The Group estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 3(j). The key assumptions used in estimating impairment losses are as follows:
- future loan migration and collection experience will be consistent with recent experience
- unsecured loans which borrowers are unable to repay in full can be partially recovered through collection of 17-19% of the loans' outstanding principal balances including sale of the loans to collection agencies.
- car loans which borrowers are unable to repay in full can be partially recovered through collection of 15% of the loans' outstanding principal balances
- mortgage loans which borrowers are unable to repay in full can be partially recovered through the sale of collateral for 50% of the loans' outstanding principal balances.

At the end of 2014 the Group launched loan restructuring aimed at managing customer relationships and maximising collection opportunities. For impairment assessment purposes, such renegotiated loans are kept in the same category of assets as at the date of restructuring unless within a defined period of time borrowers fail to comply with the renegotiated terms or instead prove their performance under new conditions in which case they are treated as non-delinquent. As at 31 December 2015 renegotiated loans to retail customers amounted to MRUB 5,795 (31 December 2014: none).

Changes in collection estimates could affect the impairment losses recognised. For example, to the extent that estimated future cash flows of loans differ by plus/minus one percent, the loan impairment allowance as at 31 December 2015 would be MRUB 1,784 lower/higher (31 December 2014: MRUB 2,448).

As at 31 December 2015 cash loans receivables with the total carrying amount of MRUB 6,286 (31 December 2014: MRUB 6,226) were sold to Eurasia Structured Finance No.3 B.V. and served as collateral in relation to the notes issued by HC Finance (LLC) as a part of cash loan securitisation transaction (refer to Note 18). Eurasia Structured Finance No.3 B.V. can not sell or repledge these cash loan receivables (unless the enforcement event contemplated by the relevant cash loan document occurs) to other parties save for the obligation of the Bank to repurchase ineligible receivables.

As at 31 December 2014 POS loans receivable with the total carrying amount of MRUB 11,000 served as collateral for a corporate term deposit (refer to Note 21).

13. Loans to customers (continued)

Analysis of movements in impairment allowance

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

MRUB	Cash loans	POS loans	Credit card loans	Mortgage loans	Car loans	Total
Balance at 1 January	**32,133**	**6,198**	**9,234**	**308**	**11**	**47,884**
Net charge/ (recovery)	19,401	4,745	9,088	276	(1)	33,509
Loans recovered and sold which previously were written off	2,404	655	739	27	3	3,828
Write offs	(35,527)	(6,729)	(12,209)	(111)	(7)	(54,583)
Effect of foreign currency translation	(807)	(263)	(13)	-	-	(1,083)
Balance at 31 December	**17,604**	**4,606**	**6,839**	**500**	**6**	**29,555**

Net charge of impairment allowance for cash loans of MRUB 19,401 shown above includes MRUB 9,050 on loans originated under new underwriting criteria since 1 September 2013.

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

MRUB	Cash loans	POS loans	Credit card loans	Mortgage loans	Car loans	Loans to corporations	Total
Balance at 1 January	**33,286**	**7,433**	**4,968**	**141**	**19**	**18**	**45,865**
Net charge/ (recovery)	31,153	5,849	11,765	96	(8)	(18)	48,837
Loans recovered and sold which previously were written off	3,008	1,238	490	91	11	-	4,838
Write offs	(37,205)	(8,795)	(8,007)	(20)	(11)	-	(54,038)
Effect of foreign currency translation	1,891	473	18	-	-	-	2,382
Balance at 31 December	**32,133**	**6,198**	**9,234**	**308**	**11**	**-**	**47,884**

Net charge of impairment allowance for cash loans of MRUB 31,153 shown above includes MRUB 6,455 on loans originated under new underwriting criteria since 1 September 2013.

14. Positive fair value of derivative instruments

	2015 MRUB	2014 MRUB
Hedging derivative instruments	7,628	8,987
Trading derivative instruments	589	583
	8,217	**9,570**

Cash flows of hedging derivative instruments are expected to occur in year 2016.

15. Financial assets available for sale

	Note	2015 MRUB	2014 MRUB
Quoted debt securities			
Unpledged		**22,240**	**10,578**
Government and government-owned institutions		8,257	8,490
Largest 50 Russian banks		7,397	1,764
Leading Russian oil and gas companies		5,467	-
Other		1,119	324
Pledged as collateral under sale and repurchase agreements	20	**-**	**7,542**
Largest 50 Russian banks		-	4,424
Government and government-owned institutions		-	2,665
Other		-	453
		22,240	**18,120**

16. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the year ended 31 December 2015 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	5,230	176	1,443	2,196	5,815	5,296	20,156
Additions	-	7	35	30	264	1,179	1,515
Effect of foreign currency translation	(46)	(15)	(79)	(70)	(166)	(391)	(767)
Disposals	(12)	-	(641)	(1,012)	(1,093)	(24)	(2,782)
Transfers	-	-	25	12	(94)	57	-
Impairment allowance	-	-	-	(76)	-	-	(76)
Balance at 31 December	**5,172**	**168**	**783**	**1,080**	**4,726**	**6,117**	**18,046**
Accumulated depreciation and amortisation							
Balance at 1 January	1,309	93	668	770	3,688	2,394	8,922
Depreciation and amortisation charge	107	22	164	322	995	959	2,569
Effect of foreign currency translation	(2)	(6)	(20)	(22)	(75)	(113)	(238)
Disposals	(6)	-	(357)	(776)	(879)	(24)	(2,042)
Balance at 31 December	**1,408**	**109**	**455**	**294**	**3,729**	**3,216**	**9,211**
Net book value at 1 January	**3,921**	**83**	**775**	**1,426**	**2,127**	**2,902**	**11,234**
Net book value at 31 December	**3,764**	**59**	**328**	**786**	**997**	**2,901**	**8,835**

16. Property, equipment and intangible assets (continued)

Movements in property, equipment and intangible assets for the year ended 31 December 2014 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	5,322	164	1,647	2,632	5,586	4,041	19,392
Additions	19	13	161	583	448	1,108	2,332
Effect of foreign currency translation	47	15	81	68	175	279	665
Disposals	(158)	(16)	(446)	(845)	(394)	(132)	(1,991)
Impairment allowance	-	-	-	(242)	-	-	(242)
Balance at 31 December	**5,230**	**176**	**1,443**	**2,196**	**5,815**	**5,296**	**20,156**
Accumulated depreciation and amortisation							
Balance at 1 January	1,221	80	610	663	2,791	1,557	6,922
Depreciation and amortisation charge	108	22	238	510	1,101	802	2,781
Effect of foreign currency translation	2	5	17	16	71	64	175
Disposals	(22)	(14)	(197)	(419)	(275)	(29)	(956)
Balance at 31 December	**1,309**	**93**	**668**	**770**	**3,688**	**2,394**	**8,922**
Net book value at 1 January	**4,101**	**84**	**1,037**	**1,969**	**2,795**	**2,484**	**12,470**
Net book value at 31 December	**3,921**	**83**	**775**	**1,426**	**2,127**	**2,902**	**11,234**

As a result of closure of offices due to business optimisation programme (Note 9) the Group created an allowance for impairment of tangible assets as set out in the table below.

Movements in the impairment allowance are as follows:

	2015 MRUB	2014 MRUB
Balance at 1 January	**(242)**	**(193)**
Net charge	(216)	(650)
Amounts related to offices closed	382	601
Balance at 31 December	**(76)**	**(242)**

17. Other assets

	2015 MRUB	2014 MRUB
Settlements with suppliers	851	941
Taxes other than income tax	349	595
Prepaid expenses	53	137
Accrued income	23	17
Other	171	206
Impairment allowance	(1)	(2)
	1,446	**1,894**

Movements in the impairment allowance are as follows:

	2015 MRUB	2014 MRUB
Balance at 1 January	**(2)**	**(3)**
Net recovery/(charge)	1	(14)
Write-off	-	16
Effect of foreign currency translation	-	(1)
Balance at 31 December	**(1)**	**(2)**

18. Debt securities issued

	Maturity	Coupon rate	2015 MRUB	2014 MRUB
Unsecured RUB bond issue 7 of MRUB 5,000	April 2015	9.75%	-	5,092
Stock exchange RUB bond issue 02 of MRUB 3,000	February 2016	9.40%	3,027	3,020
Cash loan receivables backed notes of MRUB 5,000	November 2021/ November 2016*	8.25%	4,980	4,966
Unsecured KZT bond issue 1 of MKZT 7,000	November 2016	Fixed, 8.50%	1,508	2,134
Unsecured KZT bond issue 2 of MKZT 6,769	February 2019	Fixed, 9.50%	1,481	2,111
			10,996	**17,323**

** Early redemption option date*

In April 2010 the Group issued the unsecured RUB denominated bond issue 7 with a fixed coupon rate set for two years. In April 2012 the Group reset a new coupon rate which was valid until the final maturity date. In April 2015 the Group fully repaid the bond issue at par.

In February 2013 the Group issued the RUB denominated Stock exchange bond issue 02 with a fixed coupon rate which was valid until the final maturity.

18. Debt securities issued (continued)

In November 2013 the Group issued the RUB denominated cash loan receivables backed notes through HC Finance (LLC) with a fixed coupon rate which is valid until the coupon payment date on 19 January 2017 and capped floating coupon rate from 20 January 2017 till the final maturity. The proceeds from the issue were used to grant an unsecured loan to Eurasia Structured Finance No. 3 B.V. This loan was used to obtain cash loan receivables from the Bank (Note 13). The Bank issued the public offer to purchase the outstanding securitisation bonds on 27 November 2016.

In November 2013 the Group issued the unsecured KZT denominated bond issue 1 with a fixed coupon rate which is valid until the final maturity.

In February 2014 the Group issued the unsecured KZT denominated bond issue 2 with a fixed coupon rate which is valid until the final maturity.

Eurasia Capital S.A., HC Finance (LLC), HC Finance No. 2 (LLC), Eurasia Structured Finance No.3 B.V. and Eurasia Structured Finance No. 4 B.V. are structured entities established by the Group with the primary objective of raising finance through the issuance of debt securities and securitising part of consumer loan portfolio. These structured entities are run according to pre-determined criteria that are part of the initial design of the vehicles. The day-to-day servicing of the receivables is carried out by the Group under a servicing contract, other key decisions are also made by the Group. In addition, the Group is exposed to a variability of returns from the vehicles through exposure to tax benefits, cost savings related to issuance of debt securities and securitizing part of consumer loan portfolio. As a result, the Group concluded that it controls these structured entities.

19. Subordinated debt

	Maturity	Coupon rate	2015 MRUB	2014 MRUB
Loan participation notes issue of MUSD 500	April 2020/ April 2018*	Fixed, 9.38%	16,884	25,608
Loan participation notes issue of MUSD 200	April 2021/ April 2019*	Fixed, 10.50%	14,857	11,454
Subordinated borrowings from parent, MKZT 640	December 2016/ January 2015*	16.00%	-	197
			31,741	**37,259**

** Early redemption option date / Repayment date*

In October 2012 the Group issued MUSD 500 of subordinated seven and a half year loan participation notes at the fixed rate of 9.38% through Eurasia Capital S.A. The terms of the loan agreement include a call option executable on 24 April 2018 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 862.4 b.p. The proceeds from the issue were used to grant a subordinated loan to the Bank. In November 2012 the issue was registered with the CBR. As at 31 December 2015 the Group bought back the loan participation notes with a cumulative par value of MUSD 272 with result recognised in other operating income, net (Note 7).

In October 2013 the Group issued the MUSD 200 of Basel III compliant tier 2 seven and a half year loan participation notes at the fixed rate of 10.50% through Eurasia Capital S.A. The proceeds from the issue were used to grant a subordinated loan to the Bank. The terms of the loan agreement include a call option executable on 17 April 2019 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 903 b.p. In November 2013 the issue was registered with the CBR.

In January 2015 the Group prematurely fully repaid subordinated borrowings from the parent at par.

20. Due to banks and other financial institutions

	2015 MRUB	2014 MRUB
Unsecured loans	3,101	31,633
Secured loans	-	6,973
Other balances	289	190
	3,390	**38,796**

As at 31 December 2014 the Group pledged and transferred financial assets available for sale with a carrying amount of MRUB 7,542 (Note 15) as collateral for secured loans that had recourse only to the transferred assets. These financial assets might be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty had an obligation to return the securities when the contract matures. The Group determined that it retained substantially all the risks and rewards related to these securities and therefore did not derecognise them. The fair value of the transferred assets available for sale and related secured loans was equal to their carrying amount and net position was MRUB 569.

21. Current accounts and deposits from customers

	2015 MRUB	2014 MRUB
Retail		
Term deposits	142,651	151,559
Current accounts and demand deposits	28,789	19,341
	171,440	170,900
Corporate		
Term deposits	5,789	16,095
Current accounts and demand deposits	928	268
	6,717	16,363
	178,157	**187,263**

As at 31 December 2014 the balance of corporate term deposit secured by POS loan receivables was MRUB 5,749 (refer to Note 13). The Group determined that it retained substantially all the risks and rewards related to these POS loan receivables and therefore did not derecognise them.

22. Negative fair value of derivative instruments

	2015 MRUB	2014 MRUB
Trading derivative instruments	244	163
	244	**163**

23. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2014: 20%). Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2015 and as at 31 December 2014. These temporary differences have no expiry dates, except for tax loss carry-forward, which expires in ten years.

23. Deferred tax asset and liability (continued)

	Assets		Liabilities		Net	
MRUB	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Tax loss carry forward	2,931	1,921	-	-	2,931	1,921
Loans to customers	4,627	3,424	-	(142)	4,627	3,282
Financial assets available for sale	-	-	(249)	(402)	(249)	(402)
Property, equipment and intangible assets	-	-	(735)	(883)	(735)	(883)
Fair value of derivative instruments	49	33	(1,643)	(1,896)	(1,594)	(1,863)
Other assets	474	764	(21)	(40)	453	724
Debt securities issued	-	-	(30)	(610)	(30)	(610)
Current accounts and deposits from customers	-	-	(1)	(26)	(1)	(26)
Due to banks and other financial institutions	1	-	-	-	1	-
Other liabilities	167	362	-	-	167	362
Net deferred tax asset					**5,570**	**2,505**

The management believes that the Group will have available sufficient future taxable profit and taxable temporary differences against which unused tax losses and tax assets can be utilized. The management's view is based on the legal ability to utilize losses within 10 years and the strategy in place to support the economic stability of the Group and its operations in the current circumstances. In particular, the Group is currently working on quality improvement of its loan portfolio by disposing of defaulted loans and issuing new loans under more strict underwriting criteria, which will ensure recovery of previously incurred losses. This strategy is supplemented by the recent pattern of performance and profitability of the Group.

Movements in temporary differences during the years ended 31 December 2015 and 31 December 2014 are presented as follows.

MRUB	**1 January 2015**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Translation reserve**	**31 December 2015**
Tax loss carry forward	1,921	1,010	-	-	2,931
Loans to customers	3,282	1,345	-	-	4,627
Financial assets available for sale	(402)	160	(7)	-	(249)
Property, equipment and intangible assets	(883)	124	-	24	(735)
Fair value of derivative instruments	(1,863)	111	158	-	(1,594)
Other assets	724	(281)	-	10	453
Current accounts and deposits from customers	(26)	25	-	-	(1)
Debt securities issued	(610)	580	-	-	(30)
Due to banks and other financial institutions	-	1	-	-	1
Other liabilities	362	(177)	-	(18)	167
	2,505	**2,898**	**151**	**16**	**5,570**

23. Deferred tax asset and liability (continued)

MRUB	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Translation reserve	31 December 2014
Tax loss carry forward	-	1,921	-	-	1,921
Cash and cash equivalents, placements with banks and other financial institutions	(238)	238	-	-	-
Loans to customers	1,159	2,123	-	-	3,282
Financial assets available for sale	-	(432)	30	-	(402)
Property, equipment and intangible assets	(1,082)	211	-	(12)	(883)
Fair value of derivative instruments	(45)	(1,652)	(166)	-	(1,863)
Other assets	581	155	-	(12)	724
Current accounts and deposits from customers	-	(26)	-	-	(26)
Debt securities issued	(30)	(580)	-	-	(610)
Due to banks and other financial institutions	48	(48)	-	-	-
Other liabilities	695	(345)	-	12	362
	1,088	**1,565**	**(136)**	**(12)**	**2,505**

24. Other liabilities

	2015 MRUB	2014 MRUB
Accrued employee compensation	1,372	1,369
Settlements with suppliers	886	2,109
Other taxes payable	548	833
Accrued payments to the Deposits Insurance Agency	173	177
Provision for litigations	131	186
Provision for restructuring	38	98
Other	560	479
	3,708	**5,251**

Movements in the provision for litigations were as follows:

	2015 MRUB	2014 MRUB
Balance at 1 January	**186**	**154**
Net charge	31	219
Amounts paid	(86)	(187)
Balance at 31 December	**131**	**186**

24. Other liabilities (continued)

Movements in the provision for restructuring are as follows:

	2015 MRUB	2014 MRUB
Balance at 1 January	**98**	**99**
Net charge	72	245
Amounts related to offices closed	(132)	(246)
Balance at 31 December	**38**	**98**

25. Risk management, corporate governance and internal control

(a) Corporate governance framework

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

The general participants' meeting elects the Council. The Council is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general participants' meeting and that are approved by the Council. The Composition of the Council is presented in Note 1.

General activities of the Bank are managed by the sole executive body of the Bank (Chief Executive Officer), and collective executive body of the Bank (Board of Management). The Council elects the Board of Management. The executive bodies of the Bank are responsible for implementation of decisions of the general participants' meeting and the Council of the Bank. Executive bodies of the Bank report to the Council of the Bank and to the general participants' meeting. The composition of the Board of Management is presented in Note 1.

(b) Internal control policies and procedures

The Council and the Board of Management have responsibility for the development, implementation and maintaining of internal controls in the Group that are appropriate for the scale and nature of operations.

The purpose of internal controls system is to ensure:
- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations including anti-money laundering.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank’s internal controls and periodically introduces additional controls or modifies existing controls as considered necessary.

25. Risk management, corporate governance and internal control (continued)

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:
• requirements for appropriate segregation of duties, including the independent authorization of transactions
• requirements for the recording, reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
• requirements for the reporting of operational losses and proposed remedial action
• development of contingency plans
• training and professional development
• ethical and business standards and
• risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group put in place a system of automated controls.

The internal control system of the Bank comprises:
• the Council
• the Chief Executive officer and the Board of Management
• the Chief Accountant
• the risk management function
• the security function, including IT-security
• the human resource function
• the internal audit function
• the internal control (compliance) service
• other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
- heads of branches and heads of business-units
- business processes managers
- division responsible for compliance with anti-money laundering requirements
- professional securities market participant controller – an executive office and a division responsible for compliance with the requirements for securities market participants
- the legal officer – an employee and a division responsible for compliance with the legal and regulatory requirements
- other employees/divisions with control responsibilities.

The main responsibilities of internal audit function include the following:

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

25. Risk management, corporate governance and internal control (continued)

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of internal control (compliance) service include the following:

• identification of compliance risks and regulatory risks
• monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
• monitoring of regulatory risk
• preparation of recommendations on regulatory risk management
• coordination and participation of design of measures to decrease regulatory risk
• monitoring of efficiency of regulatory risk management
• participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
• analysis of dynamics of clients' complaints
• analysis of economic reasonableness of agreements with suppliers
• participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Council. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Council and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity,* Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Council, Board of Management, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

Legislation of Kazakhstan, including the Law dated 31 August 1995 No 2444 *On banks and banking activity in the Republic of Kazakhstan*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, and other key management personnel. All members of the Bank Home Credit (SB JSC)'s governing and management bodies comply with these requirements.

Management believes that the Group complies with the CBR and the NBRK requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group has developed a system of reporting on significant risks and capital.

25. Risk management, corporate governance and internal control (continued)

As at 31 December 2015, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department (Chief Risk Officer) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board of Management. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Council and management bodies of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Council and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

The Group has exposure to the following risks from its use of financial instruments:

- credit
- market
- liquidity
- operational.

The Board of Management has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Credit Committee and the Asset and Liability Committee ("ALCO"), which are responsible for developing and monitoring risk management policies in their specified areas. Both committees report regularly to the Board of Management on their activities.
In compliance with the Group's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

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

(d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

25. Risk management, corporate governance and internal control (continued)

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

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds.

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds.

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 25 October 2013 No 3090-U *Calculation of own funds, mandatory ratios and open currency position limits for banking groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2015.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:
• are offset in the Group's statement of financial position or
• are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase and reverse sale and repurchase transactions are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

The above International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

25. Risk management, corporate governance and internal control (continued)

Such collateral is subject to the standard industry terms of the Global Master Repurchase Agreements. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

MRUB	Gross amount of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivative instruments	459	-	459	(205)	-	254
Reverse sale and repurchase agreements	6,539	-	6,539	(6,539)	-	-
Total financial assets	**6,998**	**-**	**6,998**	**(6,744)**	**-**	**254**
Derivative instruments	205	-	205	(205)	-	-
Total financial liabilities	**205**	**-**	**205**	**(205)**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

MRUB	Gross amount of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivative instruments	1,214	-	1,214	(32)	-	1,182
Total financial assets	**1,214**	**-**	**1,214**	**(32)**	**-**	**1,182**
Derivative instruments	32	-	32	(32)	-	-
Sale and repurchase agreements	6,973	-	6,973	(6,973)	-	-
Total financial liabilities	**7,005**	**-**	**7,005**	**(7,005)**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

• derivative assets and liabilities – fair value
• assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

25. Risk management, corporate governance and internal control (continued)

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2015.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Derivative instruments	459	Positive fair value of derivative instruments	8,217	7,758	14
Reverse sale and repurchase agreements	6,539	Cash and cash equivalents	33,500	26,961	11
Derivative instruments	205	Negative fair value of derivative instruments	244	39	22

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2014.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Derivative instruments	1,214	Positive fair value of derivative instruments	9,570	8,356	14
Derivative instruments	32	Negative fair value of derivative instruments	163	131	22
Sale and repurchase agreements	6,973	Due to banks and other financial institutions	38,796	31,823	20

(e) Market risk

Market risk is the risk that changes in interest rates or foreign exchange rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The majority of the Group's exposure to market risk arises in connection with the funding of operations with liabilities denominated in foreign currencies, and to the extent the interest rate repricing structure of interest bearing assets differs from that of liabilities.

Overall authority for market risk is vested in ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

25. Risk management, corporate governance and internal control (continued)

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(i) Exposure to equity price risk

Equity price risk is the risk that the value of equity instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Group takes a long or short position in a financial instrument.

The Group's exposure to equity price risk is insignificant as its securities portfolio comprises an insignificant part of total assets. As at 31 December 2015 and 31 December 2014 the Group did not have open material positions in equity securities.

(ii) Exposure to interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

25. Risk management, corporate governance and internal control (continued)

Effective interest rates sensitivity analysis

An analysis of sensitivity of net profit and equity to changes in market interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2015 and 31 December 2014 is as follows:

	2015 Total effect on net profit/ equity MRUB	2014 Total effect on net profit/ equity MRUB
RUB		
+ 1% rate increase	(382)	(370)
- 1% rate decrease	382	370
USD		
+ 1% rate increase	69	30
- 1% rate decrease	(69)	(30)
KZT		
+ 1% rate increase	18	80
- 1% rate decrease	(18)	(80)

An analysis of sensitivity of equity as a result of changes in the fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	2015 Total effect on equity MRUB	2014 Total effect on equity MRUB
+ 1% rate increase	(78)	(31)
- 1% rate decrease	78	31

25. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

The following table indicates effective interest rates for interest-earning financial assets and interest-bearing financial liabilities at the reporting date and the periods in which they reprice.

MRUB	2015							2014						
	Effective interest rate	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-earning financial assets														
RUB interest-earning financial assets														
Cash and cash equivalents	10.7%	9,539	-	-	-	-	9,539	13.0%	6,001	-	-	-	-	6,001
Placements with banks and other financial institutions	18.0%	-	2	-	-	-	2	-	-	-	-	-	-	-
Loans to customers														-
Loans to corporations	-	-	-	-	-	-	-	14.7%	-	24	27	-	-	51
Loans to individuals	26.1%	21,313	47,391	30,842	52,083	676	152,305	28.0%	31,022	52,233	43,223	83,641	1,071	211,190
Financial assets available for sale	12.9%	2,773	10,821	-	-	-	13,594	8.9%	5,999	945	-	-	-	6,944
USD interest-earning financial assets														
Placements with banks and other financial institutions	5.5%	-	5,885	-	-	-	5,885	6.9%	1,280	7,098	4,542	-	-	12,920
Loans to customers														-
Loans to corporations	8.0%	89	82	109	3,355	-	3,635	-	-	-	-	-	-	-
Loans to individuals	11.6%	71	201	246	613	556	1,687	11.7%	98	279	341	851	773	2,342
Financial assets available for sale	5.4%	5,187	3,459	-	-	-	8,646	2.5%	8,907	2,269	-	-	-	11,176
KZT interest-earning financial assets														
Loans to customers														
Loans to individuals	34.1%	6,237	9,020	4,207	1,327	-	20,791	42.9%	9,230	13,968	5,887	2,111	-	31,196
EUR interest-earning financial assets														
Placements with banks and other financial institutions	-	-	-	-	-	-	-	0.1%	34	-	-	-	-	34

25. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

MRUB	2015 Effective interest rate	2015 Less than 3 months	2015 3 to 12 months	2015 1 to 2 years	2015 2 to 5 years	2015 More than 5 years	2015 Total	2014 Effective interest rate	2014 Less than 3 months	2014 3 to 12 months	2014 1 to 2 years	2014 2 to 5 years	2014 More than 5 years	2014 Total
Interest-bearing financial liabilities														
RUB interest-bearing financial liabilities														
Debt securities issued	9.1%	3,040	4,967	-	-	-	8,007	9.4%	133	4,999	7,946	-	-	13,078
Due to banks and other financial institutions	11.9%	195	2,090	360	-	-	2,645	16.0%	25,486	3,155	490	30	-	29,161
Current accounts and deposits from customers	13.4%	65,781	55,042	28,704	-	-	149,527	13.2%	55,066	80,404	18,199	-	-	153,669
USD interest-bearing financial liabilities														
Subordinated debt	10.3%	-	596	-	31,145	-	31,741	10.1%	-	674	-	36,388	-	37,062
Due to banks and other financial institutions	-	-	-	-	-	-	-	6.0%	3,082	1,670	-	-	-	4,752
Current accounts and deposits from customers	4.2%	1,776	3,936	493	-	-	6,205	4.6%	3,863	5,067	299	9	-	9,238
EUR interest-bearing financial liabilities														
Due to banks and other financial institutions	2.0%	-	11	-	-	-	11	1.1%	-	-	29	-	-	29
Current accounts and deposits from customers	3.1%	845	1,739	68	-	-	2,652	4.5%	2,046	1,701	52	1	-	3,800
CZK interest-bearing financial liabilities														
Due to banks and other financial institutions	-	-	-	-	-	-	-	5.3%	-	1,377	-	-	-	1,377
KZT interest-bearing financial liabilities														
Debt securities issued	10.1%	53	1,508	-	1,428	-	2,989	10.1%	77	28	2,029	2,111	-	4,245
Subordinated debt	-	-	-	-	-	-	-	16.0%	-	-	197	-	-	197
Due to banks and other financial institutions	20.6%	336	109	-	-	-	445	8.1%	-	3,287	-	-	-	3,287
Current accounts and deposits from customers	9.8%	200	2,261	643	-	-	3,104	8.3%	915	3,355	1,152	-	-	5,422
Net position as at 31 December														
in RUB		(35,391)	(3,885)	1,778	52,083	676	15,261		(37,663)	(35,356)	16,615	83,611	1,071	28,278
in USD		3,571	5,095	(138)	(27,177)	556	(18,093)		3,340	2,235	4,584	(35,546)	773	(24,614)
in EUR		(845)	(1,750)	(68)	-	-	(2,663)		(2,012)	(1,701)	(81)	(1)	-	(3,795)
in CZK		-	-	-	-	-	-		-	(1,377)	-	-	-	(1,377)
in KZT		5,648	5,142	3,564	(101)	-	14,253		8,238	7,298	2,509	-	-	18,045

25. Risk management, corporate governance and internal control (continued)

(iii) *Foreign currency risk*

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities. Assets and liabilities by currency as at 31 December are as follows:

	2015					2014				
MRUB	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets										
Cash and cash equivalents	3,687	2,997	26,627	189	33,500	2,880	3,946	26,740	296	33,862
Placements with banks and other financial institutions	7,547	40	1,178	303	9,068	12,919	34	1,988	431	15,372
Loans to customers	5,322	-	152,305	20,791	178,418	2,342	-	211,241	31,196	244,779
Positive fair value of derivative instruments	-	-	8,217	-	8,217	-	-	9,480	90	9,570
Financial assets available for sale	8,646	-	13,594	-	22,240	11,176	-	6,944	-	18,120
Property, equipment and intangible assets	-	-	7,570	1,265	8,835	-	-	9,652	1,582	11,234
Assets classified as held for sale	-	-	163	-	163	-	-	390	-	390
Investment in associate	-	-	121	-	121	-	-	154	-	154
Deferred tax asset	-	-	5,603	-	5,603	-	-	2,542	-	2,542
Current income tax receivable	-	-	296	16	312	-	-	781	42	823
Other assets	40	32	1,090	284	1,446	46	10	1,434	404	1,894
Total assets	**25,242**	**3,069**	**216,764**	**22,848**	**267,923**	**29,363**	**3,990**	**271,346**	**34,041**	**338,740**
Liabilities										
Debt securities issued	-	-	8,007	2,989	10,996	-	-	13,078	4,245	17,323
Subordinated debt	31,741	-	-	-	31,741	37,062	-	-	197	37,259
Due to banks and other financial institutions	-	26	2,911	453	3,390	5,799	60	29,309	3,628	38,796
Current accounts and deposits from customers	8,518	2,743	161,826	5,070	178,157	9,667	3,904	164,979	8,713	187,263
Negative fair value of derivative instruments	-	-	244	-	244	-	-	163	-	163
Deferred tax liability	-	-	-	33	33	-	-	-	37	37
Other liabilities	140	82	2,840	646	3,708	88	30	3,916	1,217	5,251
Total liabilities	**40,399**	**2,851**	**175,828**	**9,191**	**228,269**	**52,616**	**3,994**	**211,445**	**18,037**	**286,092**
Effect of foreign currency derivatives	15,105	-	(1,319)	(6,406)	7,380	23,903	-	(9,285)	(7,045)	7,573
Net position as at 31 December	**(52)**	**218**	**39,617**	**7,251**	**47,034**	**650**	**(4)**	**50,616**	**8,959**	**60,221**

25. Risk management, corporate governance and internal control (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of net profit and equity to change in the currency exchange rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 10% change in USD and EUR to Russian Rouble exchange rates is as follows:

	2015 Total effect on net profit/ equity MRUB	**2014 Total effect on net profit/ equity MRUB**
Effect of 10% RUB depreciation against USD	(4)	52
Effect of 10% RUB appreciation against USD	4	(52)
Effect of 10% RUB depreciation against EUR	17	-
Effect of 10% RUB appreciation against EUR	(17)	-
Effect of 10% RUB depreciation against KZT	211	224
Effect of 10% RUB appreciation against KZT	(211)	(224)

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Financial Markets department collects information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering different market conditions. Liquidity position projections are subject to regular review and approval by ALCO.

25. Risk management, corporate governance and internal control (continued)

The following table shows assets and liabilities as at 31 December by remaining contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the statement of financial position amount is based on discounted cash flows. Under Russian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. The management believes that the majority of deposits will be withdrawn in accordance with their contractual maturity dates as presented in the table below.

	2015							2014						
MRUB	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Assets														
Cash and cash equivalents	33,524	-	-	-	-	-	33,524	33,887	-	-	-	-	-	33,887
Placements with banks and other financial institutions	-	-	6,072	-	-	3,181	9,253	-	-	7,522	4,933	-	3,732	16,187
Loans to customers	18,440	36,166	100,888	74,585	1,588	-	231,667	24,066	48,395	144,428	111,365	1,945	-	330,199
Positive fair value of derivative instruments	382	7,776	170	23	-	-	8,351	(9)	13	3,994	5,993	-	-	9,991
Financial assets available for sale	376	7,700	15,061	-	-	-	23,137	985	14,042	3,260	-	-	-	18,287
Property, equipment and intangible assets	-	-	-	-	-	8,835	8,835	-	-	-	-	-	11,234	11,234
Assets classified as held for sale	-	-	163	-	-	-	163	-	-	390	-	-	-	390
Investment in associate	-	-	-	-	-	121	121	-	-	-	-	-	154	154
Deferred tax asset	-	-	-	-	2,931	2,672	5,603	-	-	-	-	1,921	621	2,542
Current income tax receivable	-	-	312	-	-	-	312	-	-	823	-	-	-	823
Other assets	141	81	1,224	-	-	-	1,446	221	155	1,482	36	-	-	1,894
Total assets	**52,863**	**51,723**	**123,890**	**74,608**	**4,519**	**14,809**	**322,412**	**59,150**	**62,605**	**161,899**	**122,327**	**3,866**	**15,741**	**425,588**
Liabilities														
Debt securities issued	34	3,209	6,943	1,779	-	-	11,965	156	239	5,927	13,481	-	-	19,803
Subordinated debt	-	-	3,089	36,767	-	-	39,856	3	5	3,573	46,780	-	-	50,361
Due to banks and other financial institutions	449	384	2,394	418	-	-	3,645	12,364	16,802	9,195	614	-	-	38,975
Current accounts and deposits from customers	61,582	24,354	67,016	35,323	-	-	188,275	35,366	42,888	96,383	22,940	-	-	197,577
Negative fair value of derivative instruments	38	88	125	-	-	-	251	132	33	-	-	-	-	165
Deferred tax liability	-	-	-	-	-	33	33	-	-	-	-	-	37	37
Other liabilities	2,263	853	592	-	-	-	3,708	3,201	1,082	968	-	-	-	5,251
Total liabilities	**64,366**	**28,888**	**80,159**	**74,287**	**-**	**33**	**247,733**	**51,222**	**61,049**	**116,046**	**83,815**	**-**	**37**	**312,169**
Net balance position	**(11,503)**	**22,835**	**43,731**	**321**	**4,519**	**14,776**	**74,679**	**7,928**	**1,556**	**45,853**	**38,512**	**3,866**	**15,704**	**113,419**
Irrevocable credit related commitments *	2,717	20	-	-	-	-	2,737	2,237	-	1,038	7	-	-	3,282
Financial guarantees	-	500	-	-	-	-	500	-	2,000	10,700	600	-	-	13,300
Net off-balance position	**2,717**	**520**	**-**	**-**	**-**	**-**	**3,237**	**2,237**	**2,000**	**11,738**	**607**	**-**	**-**	**16,582**
Cumulative net position	**(14,220)**	**8,095**	**51,826**	**52,147**	**56,666**	**71,442**		**5,691**	**5,247**	**39,362**	**77,267**	**81,133**	**96,837**	

** Other credit related commitments are disclosed in Note 27*

25. Risk management, corporate governance and internal control (continued)

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

• requirements for appropriate segregation of duties, including the independent authorization of transactions
• requirements for the reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
• requirements for the reporting of operational losses and proposed remedial action
• development of contingency plans
• training and professional development
• ethical and business standards
• risk mitigation, including insurance where this is effective.

(h) Fair value of financial instruments

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The following assumptions are used by management to estimate the fair values of financial instruments that are traded in active markets:

- The estimation of the fair value of debt securities issued was made by using market quotes in the range of 96.7-99.6% from notional amount for debt securities issued in RUB
- The estimation of the fair value of subordinated debt was made by using market quotes in the range of 90.7-95.1% from notional amount for subordinated debt issued in USD.

25. Risk management, corporate governance and internal control (continued)

The following assumptions are used by management to estimate the fair values of other financial instruments:

- The estimation of the fair value of POS, cash and credit card loans was made by using discounting future cash flows at discount rates of 29.9%. The estimation of the fair value of mortgage loans was made by using discounting future cash flows at discount rates of 10.0-15.0%
- The estimation of the fair value of placements with banks and other financial institutions was made by using discounting future cash flows at discount rates of 10.0% in RUB, 5.5% in USD
- The estimation of the fair value of debt securities issued was made by using discounting future cash flows at discount rates of 17.2% in KZT
- The estimation of the fair value of due to banks and other financial institutions was made by using discounting future cash flows at discount rates of 10.5% in RUB and 20.6% in KZT
- The estimation of the fair value of current accounts and deposits from customers was made by using discounting future cash flows at discount rates of 10.0% in RUB, 3.5% in USD, 3.5% in EUR and 10.0% in KZT
- The Group uses valuation models for determining the fair value of financial instruments at fair value through profit or loss based on FX spot rates as set by the CBR, benchmark interest rates and other inputs.

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

· Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
· Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
· Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes the Risk Department, which is independent of front office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both quarterly calibration and the back testing of models against observed market transactions
- analysis and investigation of significant daily valuation movements
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

25. Risk management, corporate governance and internal control (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Board of Management.

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2015:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	178,418	-	-	176,210	176,210
Liabilities					
Debt securities issued	10,996	7,830	2,662	-	10,492
Subordinated debt	31,741	29,570	-	-	29,570
Current accounts and deposits from customers	178,157	-	179,521	-	179,521

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2014:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	244,779	-	-	228,106	228,106
Liabilities					
Debt securities issued	17,323	7,944	8,615	-	16,559
Subordinated debt	37,259	26,105	197	-	26,302
Current accounts and deposits from customers	187,263	-	182,994	-	182,994

The estimates of fair values of financial assets other than loans to customers and financial liabilities other than debt securities issued, subordinated debt and current accounts and deposits from customers as at 31 December 2015 and 31 December 2014 are not materially different from their carrying values.

25. Risk management, corporate governance and internal control (continued)

The table below analyses financial instruments measured at fair value as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivative instruments	-	8,217	-	8,217
Financial assets available for sale	22,240	-	-	22,240
Liabilities				
Negative fair value of derivative instruments	-	244	-	244

The following table shows a reconciliation for the year ended 31 December 2015 and 31 December 2014 for fair value measurements in Level 3 of the fair value hierarchy:

Trading derivative instruments	2015 MRUB	2014 MRUB
Balance at the beginning of the year	**90**	**-**
Revaluation during the year, recognised in profit and loss	835	90
Settlement	(925)	-
Balance at the end of the year	**-**	**90**

The table below analyses financial instruments measured at fair value as at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivative instruments	-	9,480	90	9,570
Financial assets available for sale	18,120	-	-	18,120
Liabilities				
Negative fair value of derivative instruments	-	163	-	163

26. Derivative financial instruments

As at 31 December 2015 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Hedging derivative instruments				
Foreign currency swap contracts	1 to 3 months	RUB/USD	13,848	7,206
Cross currency interest rate swaps contracts	1 to 3 months	Fixed RUB/ Floating USD	729	422
				7,628
Trading derivative instruments				
Foreign currency forward contracts	less than 1 month	KZT/USD	3,563	379
Foreign currency swap contracts	less than 1 month	USD/RUB	3,964	(39)
	1 to 3 months	USD/RUB	1,357	(86)
	3 to 6 months	USD/RUB	596	(119)
	6 to 12 months	KZT/USD	1,458	80
Interest rate swap contracts	1 to 5 years	Fixed/Floating (RUB)	4,000	130
				345
Total derivative instruments				**7,973**

As at 31 December 2014 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Hedging derivative instruments				
Foreign currency swap contracts	3 to 6 months	RUB/USD	1,689	698
	6 to 12 months	RUB/USD	1,688	736
	1 to 5 years	RUB/USD	10,691	4,867
Cross currency interest rate swaps contracts	6 to 12 months	Fixed RUB/ Floating USD	5,064	2,407
	1 to 5 years	Fixed RUB/ Floating USD	563	279
				8,987
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	USD/RUB	2,710	(131)
	less than 1 month	KZT/USD	6,577	-
	1 to 3 months	USD/CZK	1,205	(32)
	6 to 12 months	KZT/USD	1,673	90
Interest rate swap contracts	1 to 3 months	Fixed/Floating (RUB)	300	4
	1 to 5 years	Fixed/Floating (RUB)	4,000	489
				420
Total derivative instruments				**9,407**

26. Derivative financial instruments (continued)

The Group hedges its exposure to currency risk with hedging derivative instruments disclosed above. Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies.

27. Commitments

Credit related commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customers' credit card accounts, approved overdraft facilities, guarantees and approved consumer loans.

	2015 MRUB	**2014 MRUB**
Credit card commitments	17,217	19,581
POS and cash loan commitments	2,717	2,237
Guarantee provided	500	13,300
Undrawn overdraft facilities to corporations	20	1,045
	20,454	**36,163**

The total outstanding contractual commitments to extend credit indicated above represent future cash requirements. Credit related commitments to individual clients are mainly classified into category "less than one month" in terms of maturity, however some of these commitments may expire or terminate without being funded.

28. Operating leases

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	2015 MRUB	**2014 MRUB**
Less than one year	735	1,687
Between one and five years	1,470	3,319
More than five years	224	315
	2,429	**5,321**

During the year MRUB 1,593 (2014: MRUB 3,137) was recognised as an expense in the consolidated statement of profit or loss in respect of operating leases (Note 9).

29. Contingencies

Taxation contingencies

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

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

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

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

30. Related party transactions

(a) Transactions with the parent

Amounts included in the consolidated statement of profit or loss in relation to transactions with the parent are as follows:

	2015 MRUB	**2014 MRUB**
Interest income	842	411
Interest expense	(2)	(21)
Gain from foreign exchange revaluation of financial assets and liabilities	1,419	4,126
	2,259	**4,516**

Amounts included in the consolidated statement of financial position in relation to transactions with the parent are as follows:

	2015 MRUB	**2014 MRUB**
Placements with banks and other financial institutions	5,885	11,639
Subordinated debt	-	(197)
	5,885	**11,442**

30. Related party transactions (continued)

As at 31 December 2015 placements with banks and other financial institutions shown above included term deposits in the amount of MRUB 5,885 at an effective interest rate of 5.5% with a maturity of three month to one year (31 December 2014: MRUB 11,639 at an effective interest rate of 6.9% with a maturity of three months to two years).

As at 31 December 2014 subordinated debt amounted to MRUB 197 at an effective interest rate of 16.0% with a maturity of one to five years.

(b) Transactions with entities controlled by the ultimate controlling entity

Amounts included in the consolidated statement of profit or loss in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2015 MRUB	2014 MRUB
Interest income	(328)	(337)
Interest expense	(2,065)	(1,328)
Fee and commission income	1,313	1,570
Loss from foreign exchange revaluation of financial assets and liabilities	(47)	(285)
Net gain on spot transactions and currency derivatives	252	401
Gain from sale of loans	612	302
Other operating (expenses)/income, net	(1)	5
General administrative expenses	(1,316)	(1,034)
	(1,580)	**(706)**

Amounts included in the consolidated statement of financial position in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2015 MRUB	2014 MRUB
Cash and cash equivalents	1	100
Loans to customers	189	228
Positive fair value of derivative instruments	459	-
Property, equipment and intangible assets	793	788
Other assets	24	43
Debt securities issued	(91)	(81)
Subordinated debt	(12,347)	(7,273)
Due to banks and other financial institutions	(2,136)	(9,186)
Current accounts and deposits from customers	(964)	(9,995)
Negative fair value of derivative instruments	(206)	-
Other liabilities	(253)	(210)
	(14,531)	**(25,586)**

As at 31 December 2015 loans to customers shown above included loan origination agent fees paid totalling MRUB 189 which formed an integral part of loans to customers and were to be amortised within 8 months (31 December 2014: MRUB 228).

The effective interest rate on debt securities issued shown above was 9.6% and the maturity was one month to three months as at 31 December 2015 (31 December 2014: 9.7% and one month to five years respectively).

As at 31 December 2015 amounts due to banks and other financial institutions shown above included term deposits in the amount of MRUB 2,136 at an effective interest rate of 12.0% with the maturity from one month to two years (31 December 2014: MRUB 9,186 at an effective interest rate 9.5% with the maturity from one month to five years).

30. Related party transactions (continued)

As at 31 December 2015 current accounts and deposits from customers included deposits of MRUB 862 at an effective interest rate of 10.6% with the maturity from one month to three months and other balances of MRUB 102 with the maturity of less than one month (31 December 2014: a deposit of MRUB 9,861 at an effective interest rate of 21.4% with the maturity from one month to three months and other balances of MRUB 134 with the maturity of less than one month).

As at 31 December 2015 subordinated debt amounted to MRUB 12,347 at an effective interest rate of 10.3% with the maturity from one year to five years (31 December 2014: MRUB 7,273 at an effective interest rate 9.9% with the maturity from three months to five years).

(c) Transactions with members of key management

Amounts included in the consolidated statement of profit or loss in relation to transactions with members of key management (members of the Council and the Board of Management) of MRUB 392 (2014: MRUB 632) represent compensation for the year and severance pay.

31. Capital management

The Group's lead regulator, the CBR, sets and monitors capital requirements for both the Bank and the Group as a whole. Bank Home Credit (SB JSC) is regulated and monitored in Kazakhstan by the NBRK.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Starting from 1 January 2014 the Group calculates the amount of capital and capital adequacy ratios for prudential purposes in accordance with the Provision of the CBR dated 28 December 2012 No 395–P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)* . As at 31 December 2015, this minimum levels of core capital, primary capital and total capital to risk weighted assets were 5.0%, 6.0% and 10.0% respectively (31 December 2014: 5.0%, 5.5% and 10.0% respectively). Starting from 1 January 2016 the minimum required core capital and total capital to risk weighted assets are 4.5% and 8% respectively.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form. The Accounting department controls on a daily basis compliance with capital adequacy ratios.

The calculation of capital adequacy of the Group based on requirements set by the CBR as at 31 December 2015 and 31 December 2014 was as follows:

	2015 MRUB	2014 MRUB
Risk-weighted assets	**415,441**	**485,221**
Core capital	34,222	47,494
Primary capital	34,222	47,494
Additional capital	26,032	26,242
Total capital	**60,254**	**73,736**
Core capital adequacy ratio N20.1	**8.2%**	**9.8%**
Primary capital adequacy ratio N20.2	**8.2%**	**9.8%**
Total capital adequacy ratio N20.0	**14.5%**	**15.2%**

The Group also calculates its capital adequacy in compliance with the methodology set out by the Bank of International Settlements (BIS). Tier I capital is represented by equity. Tier II capital is represented by subordinated debt up to 50% of tier I.

31. Capital management (continued)

The calculation of capital adequacy based on requirements set by BIS as at 31 December is as follows:

	2015 MRUB	2014 MRUB
Risk weighted assets	**233,969**	**308,878**
Tier I capital	39,654	52,648
Tier II capital	17,287	22,763
Total capital	**56,941**	**75,411**
Tier I ratio	16.9%	17.0%
Capital Adequacy Ratio	24.3%	24.4%

As at 31 December 2015 and 31 December 2014 the Group was fully in compliance with the capital regulations described above.

32. Segment analysis

The Board of Management is the chief operating decision maker. The Board of Management reviews internal reporting on a regular basis to assess the performance of individual segments and to allocate resources accordingly.

The Board of Management monitors performance mainly from a product perspective and geographical perspective.

Operational information is represented by major reportable segments being POS loans, cash loans and credit card loans. Other segments comprising mortgage loans, car loans, loans to corporations and treasury operations are not analysed individually by the management and thus are not reported separately by the Group.

The Group operates in the Russian Federation and the Republic of Kazakhstan. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Revenues of reportable segments consist of interest and fee income including inter-segment revenues resulting from allocation of financing raised by the treasury function to major segments. Performance of individual segments is assessed by the Board of Management based on segment profit or loss.

Total segment assets mainly consist of the loan portfolio and interest earning financial assets accumulated as a result of treasury operations. A presentation of segment revenues, segment profit and assets is provided below.

32. Segment analysis (continued)

(a) Operational segments

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Year ended 31 December 2015					
External interest income	8,642	9,938	36,047	5,803	**60,430**
Fee and commission income	6,001	2,888	5,375	909	**15,173**
Inter segment revenue	-	-	-	26,886	**26,886**
Total revenues	**14,643**	**12,826**	**41,422**	**33,598**	**102,489**
External interest expense	-	-	-	(30,889)	**(30,889)**
Inter segment interest expense	(3,327)	(3,406)	(20,025)	-	**(26,758)**
Inter segment other operating income	(75)	94	(147)	-	**(128)**
Fee and commission expense	(116)	(823)	(405)	(69)	**(1,413)**
Other operating income, net	396	-	304	692	**1,392**
Impairment losses	(4,745)	(9,088)	(19,401)	(275)	**(33,509)**
Total expenses	**(7,867)**	**(13,223)**	**(39,674)**	**(30,541)**	**(91,305)**
Segment profit	**6,776**	**(397)**	**1,748**	**3,057**	**11,184**

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Year ended 31 December 2014					
External interest income	8,667	12,916	50,036	2,820	**74,439**
Fee and commission income	5,531	4,075	10,574	804	**20,984**
Inter segment revenue	-	-	-	21,731	**21,731**
Total revenues	**14,198**	**16,991**	**60,610**	**25,355**	**117,154**
External interest expense	-	-	-	(24,184)	**(24,184)**
Inter segment interest expense	(2,727)	(2,331)	(16,621)	-	**(21,679)**
Inter segment other operating income	(6)	(7)	(39)	-	**(52)**
Fee and commission expense	(90)	(923)	(524)	(39)	**(1,576)**
Other operating income, net	18	-	360	483	**861**
Impairment losses	(5,849)	(11,765)	(31,153)	(84)	**(48,851)**
Total expenses	**(8,654)**	**(15,026)**	**(47,977)**	**(23,824)**	**(95,481)**
Segment profit	**5,544**	**1,965**	**12,633**	**1,531**	**21,673**

Segment assets

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Carrying amount at 31 December 2015	50,343	23,674	97,019	56,812	**227,848**
Carrying amount at 31 December 2014	57,438	37,186	145,390	51,683	**291,697**

32. Segment analysis (continued)

A reconciliation of segment revenues to total revenues is provided as follows:

	2015 MRUB	2014 MRUB
Segment revenues	**102,489**	**117,154**
Inter segment revenue	(26,886)	(21,731)
Unallocated fee and comission income	326	270
Total revenues	**75,929**	**95,693**

A reconciliation of segment profit to total loss before tax is provided as follows:

	2015 MRUB	2014 MRUB
Segment profit for reportable segments	**11,184**	**21,673**
Unallocated fee and comission income	326	270
Unallocated fee and comission expense	(1,277)	(1,296)
Unallocated other operating income	(68)	409
Unallocated impairment losses	(215)	(650)
General administrative expenses	(20,489)	(26,230)
Loss before tax	**(10,539)**	**(5,824)**

Reportable segments' assets are reconciled to total assets as follows:

	2015 MRUB	2014 MRUB
Total segment assets	**227,848**	**291,697**
Cash and cash equivalents (excluded from other segments)	22,116	27,588
Placements with banks and other financial institutions (excluded from other segments)	1,479	2,418
Property, equipment and intangible assets	8,835	11,234
Assets classified as held for sale	163	390
Investment in associate	121	154
Income tax asset	5,915	3,365
Other assets	1,446	1,894
Total assets	**267,923**	**338,740**

32. Segment analysis (continued)

(b) Geographical segments

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year ended 31 December 2015				
External interest income	51,263	9,167	-	**60,430**
Fee and commission income	10,807	4,692	-	**15,499**
Inter segment revenue	208	-	(208)	-
Total revenues	**62,278**	**13,859**	**(208)**	**75,929**
External interest expense	(29,125)	(1,764)	-	**(30,889)**
Inter segment interest expense	-	(201)	201	**-**
Inter segment fee and commission expense	-	(7)	7	**-**
Inter segment other operating income/(expense), net	289	(47)	-	**242**
Fee and commission expense	(2,348)	(342)	-	**(2,690)**
Other operating income, net	3,825	(876)	(1,867)	**1,082**
Impairment losses	(30,923)	(2,801)	-	**(33,724)**
General administrative expenses	(16,052)	(4,437)	-	**(20,489)**
Total expenses	**(74,334)**	**(10,475)**	**(1,659)**	**(86,468)**
(Loss)/profit before tax	**(12,056)**	**3,384**	**(1,867)**	**(10,539)**
Income tax benefit/(expense)	2,703	(978)	-	**1,725**
(Loss)/profit for the period	**(9,353)**	**2,406**	**(1,867)**	**(8,814)**

32. Segment analysis (continued)

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year ended 31 December 2014				
External interest income	67,353	7,086	-	**74,439**
Fee and commission income	17,912	3,342	-	**21,254**
Inter segment revenue	220	-	(220)	-
Total revenues	**85,485**	**10,428**	**(220)**	**95,693**
External interest expense	(22,701)	(1,483)	-	**(24,184)**
Inter segment interest expense	-	(220)	220	-
Inter segment other operating income/(expense), net	1,064	(7)	-	**1,057**
Fee and commission expense	(2,680)	(192)	-	**(2,872)**
Other operating income, net	1,450	72	(1,309)	**213**
Impairment losses	(46,581)	(2,920)	-	**(49,501)**
General administrative expenses	(22,752)	(3,478)	-	**(26,230)**
Total expenses	**(92,200)**	**(8,228)**	**(1,089)**	**(101,517)**
(Loss)/profit before tax	**(6,715)**	**2,200**	**(1,309)**	**(5,824)**
Income tax benefit/(expense)	1,730	(430)	-	**1,300**
(Loss)/profit for the period	**(4,985)**	**1,770**	**(1,309)**	**(4,524)**

Segment assets

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Carrying amount at 31 December 2015	249,131	25,266	(6,474)	**267,923**
Carrying amount at 31 December 2014	308,758	34,417	(4,435)	**338,740**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova