# Financial statements and Independent auditor's report JSC «Denizbank Moscow» 31 December 2015

# Contents

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# Independent auditor's report

**To the Shareholders and Board of Directors of**
**JSC «Denizbank Moscow»**

## Auditor

JSC «Baker Tilly Rus» is registered under the following address:
32 A, Khoroshevskoye Shosse, 123007, Moscow, Russian Federation
OGRN 1027700115409

JSC «Baker Tilly Rus» is a member of Non-profit Partnership «Audit Chamber of Russia». The State Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No 10201018972.

## Audited entity

Joint-Stock Company «Denizbank Moscow»

13, bld.42, 2-nd Zvenigorodskaya st.
123022, Moscow,
Russian Federation

Included in the United State Register of Legal Entities on 24 October 2002 by Moscow Division of the Ministry of taxes and duties of the Russian Federation. Registration No. 1027739453390. Certificate series 77 No. 005391806.

Registered by the Central Bank of the Russian Federation on 15 June 1998.
Registration No.3330.

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# Independent auditor's report

**To the Shareholders and Board of Directors of**
**JSC «Denizbank Moscow»**

We have audited the accompanying financial statements of JSC «Denizbank Moscow» ("the Bank"), which comprise of statement of financial position as of 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2015, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

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

Moscow, Russian Federation
15 January 2016

Baker Tilly Rus AO

# Statement of Profit or Loss and Other Comprehensive Income

| | Notes | 2015 USD'000 | 2014 USD'000 |
|---|---|---|---|
| Interest income | 5 | **20,741** | 23,636 |
| Interest expense | 5 | **(4,670)** | (6,158) |
| **Net interest income** | | **16,071** | 17,478 |
| Provision for loan impairment | 10 | **(605)** | (73) |
| **Net interest income after provision for loans** | | **15,466** | 17,405 |
| Fee and commission income | 6 | **2,532** | 3,265 |
| Fee and commission expense | 6 | **(750)** | (1,453) |
| Net losses on financial instruments at fair value through profit or loss | 7 | **(9,678)** | (7,094) |
| Net gains (losses) on available-for-sale financial assets | | **256** | (107) |
| Net gains on foreign exchange transactions | | **1,413** | 2,464 |
| Net gains on foreign exchange translation | | **8,280** | 6,097 |
| Other operating income | 8 | **16** | 92 |
| **Operating income** | | **17,535** | 20,669 |
| General administrative expenses | 9 | **(4,124)** | (5,505) |
| **Profit before tax** | | **13,411** | 15,164 |
| Income tax expense | 11 | **(2,792)** | (3,127) |
| **Net profit for the year** | | **10,619** | 12,037 |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Net gains / (losses) on securities available-for-sale disposed of during the year | | **(256)** | 107 |
| Unrealized losses on financial assets available for sale, net of tax | | **9,466** | (9,463) |
| Deferred tax relating to components of other comprehensive income | | **(1,842)** | 1,871 |
| Effect of translation | | **(13,231)** | (34,127) |
| **Other comprehensive income loss for the period, net of tax** | | **(5,863)** | (41,612) |
| **Total comprehensive income / (loss) for the year** | | **4,756** | (29,575) |

The financial statements were approved by the Board of Management of the Bank on 15 January 2016.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

АО "Денизбанк Москва" Акционерное общество "Денизбанк Москва" ОГРН 1027739453390 JSC Denizbank Moscow

# Statement of Financial Position

| | Notes | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **1,809** | 2,271 |
| Due from the Central Bank of Russia | 12 | **27,533** | 7,331 |
| Placements with banks and other financial institutions | 13 | **73,732** | 94,993 |
| Derivative financial instruments | 14 | **121** | - |
| Loans to customers | 15 | **148,221** | 184,629 |
| Financial assets available-for-sale | | | |
| - Unpledged | 16 | **19,720** | 27,102 |
| - Pledged under repurchase agreements | 16 | **-** | 23,186 |
| Other assets | 17 | **121** | 210 |
| Fixed assets | 18 | **213** | 302 |
| Intangible assets | 19 | **576** | 750 |
| Current tax assets | | **326** | - |
| Deferred tax assets | 26 | **-** | 1,440 |
| **Total Assets** | | **272,372** | 342,214 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| Derivative financial instruments | 14 | **-** | 37 |
| Amount payables under repurchase agreements | 20 | **-** | 22,501 |
| Deposits and balances from banks and other financial institutions | 21 | **183,678** | 213,602 |
| Current accounts and deposits from customers | 22 | **27,089** | 51,251 |
| Debt securities issued | 23 | **3,609** | 1,472 |
| Subordinated loans | 24 | **8,894** | 9,470 |
| Other liabilities | 25 | **218** | 462 |
| Current tax liabilities | | **-** | 521 |
| Deferred tax liabilities | 26 | **1,229** | - |
| **Total Liabilities** | | **224,717** | 299,316 |
| **Shareholders' Equity** | | | |
| Share capital | 27 | **49,269** | 49,269 |
| Share premium | | **683** | 683 |
| Revaluation reserve for financial assets available-for-sale | | **(118)** | (7,487) |
| Translation reserve | | **(57,850)** | (44,619) |
| Retained earnings | | **55,671** | 45,052 |
| **Total Shareholder's Equity** | | **47,655** | 42,898 |
| **Total Liabilities and Shareholders' Equity** | | **272,372** | 342,214 |

See accompanying notes to the financial statements.

# Statement of Cash Flows

| | Note | 2015 USD'000 | 2014 USD'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net profit | | **10,619** | 12,037 |
| **Adjustments for non-cash items** | | | |
| Depreciation | | **148** | 236 |
| Interest income | | **569** | (296) |
| Interest expense | | **92** | (526) |
| Recovery impairment for impairment losses | | **605** | 73 |
| Income tax expense | | **2,792** | 3,127 |
| Foreign exchange | | **110,383** | (40,637) |
| Other non-cash items | | **64** | 491 |
| **(Increase) / decrease in operating assets** | | | |
| Loans to customers | | **(6,343)** | (61,874) |
| Other assets | | **42** | (58) |
| **Increase / (decrease) in operating liabilities** | | | |
| Derivative financial instruments | | **(45)** | (119) |
| Amount payables under repurchase agreements | | **(27,625)** | 5,070 |
| Deposits and balances from banks and other financial institutions | | **(78,510)** | 104,307 |
| Current accounts and deposits from customers | | **(35,848)** | 8,123 |
| Debt securities issued | | **1,575** | (7,637) |
| Other liabilities | | **(403)** | (6) |
| **Net cash provided from operating activities before income taxes paid** | | **(21,885)** | 22,311 |
| Income taxes paid | | **(2,139)** | (1,557) |
| **Cash flow used in operating activities** | | **(24,024)** | 20,754 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of financial assets available-for-sale, net | | **25,815** | (15,465) |
| Purchases of property & equipment, net | | **(40)** | - |
| Purchases of intangible assets, net | | **(65)** | (48) |
| **Cash flows used in investing activities** | | **25,710** | (15,513) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash flows used in financing activities** | | **-** | - |
| **Effect of translation to presentation currency** | | **(13,903)** | (35,129) |
| **Effect of changes in exchange rates in cash and cash equivalents** | | **10,679** | 31,418 |
| **Net increase in cash and cash equivalents** | | **(1,537)** | 1,530 |
| Cash and cash equivalents at beginning of year | | **104,594** | 103,064 |
| **Cash and cash equivalents at end of year** | 34 | **103,057** | 104,594 |

See accompanying notes to the financial statements.

# Statement of Changes in Shareholders' Equity

| | Share capital | Share premium | Revaluation reserve for financial assets available-for-sale | Translation reserve | Retained earnings | **Total** |
|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | **USD'000** |
| **Balance as of 1 January 2014** | **49,269** | **683** | **(2)** | **(10,493)** | **33,015** | **72,472** |
| Profit for the year | - | - | - | - | 12,037 | **12,037** |
| Other comprehensive loss | - | - | (7,485) | (34,126) | - | **(41,611)** |
| **Balance as of 31 December 2014** | **49,269** | **683** | **(7,487)** | **(44,619)** | **45,052** | **42,898** |
| Profit for the year | - | - | - | - | 10,619 | **10,619** |
| Other comprehensive loss | - | - | 7,369 | (13,231) | - | **(5,862)** |
| **Balance as of 31 December 2015** | **49,269** | **683** | **(118)** | **(57,850)** | **55,671** | **47,655** |

**See accompanying notes to the financial statements.**

# 1. Background

## 1.1 Principal activities

JSC Denizbank Moscow (the «Bank») was re-established on 19 May 2003 as CJSC Denizbank Moscow through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003. The Bank's predecessor, CJSC Iktisat Bank (Moscow), was initially established by Iktisat Bankasi T.A.Sh. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998. In December 2007 the Bank has been renamed to CJSC Dexia Bank by decision of shareholders meeting on 15 November 2007. In April 2012 the Bank has been renamed to CJSC «Denizbank Moscow» by decision of shareholders meeting on 21 February, 2012.

The Bank is a part of DenizBank Financial Services Group, which before October 2006 was part of Zorlu Group - a significant financial and industrial group in Turkey, specialising in textile, electronics, energy production and financial services. In October 2006, Dexia Participation Belgique SA, 100% of which was directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2006 Dexia acquired the remaining shares listed on Istanbul stock exchange, and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more then 50% of which are owned by the Central Bank of the Russian Federation, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,+85% shares from Dexia Group.

As of 31 December 2015 and 31 December 2014 the Bank's parent companies were DenizBank A.S. (Turkey), the owner of 49% shares of the Bank, and DenizBank AG (Austria), the owner of 51% shares of the Bank.

As of today the principal activities of the Bank are deposit taking, corporate lending, documentary business, customer settlements and operations with securities and foreign exchange.

The activities of the Bank are regulated by the Central Bank of the Russian Federation («the CBR»).

The Bank is a member of the state deposit insurance scheme in the Russian Federation.

As of 31 December 2015 the Bank is located and carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 73 (2014: 70).

# 2. Basis of preparation

## 2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

## 2.2 Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available-for-sale.

## 2.3 Functional and presentation currency

### 2.3.1 Changes in functional currency

The national currency of the Russian Federation is the Russian rouble. Previous to 1 January 2006 the Bank used the US Dollar as its functional currency. As of 1 January 2006, the Bank re-evaluated its functional currency and as a result changed it from the US Dollar to the RUR. To effect the change in the functional currency, the USD balance sheet figures as of 31 December 2005 were translated to the RUR at the exchange rate ruling at that date and formed the basis for subsequent accounting.

The RUR/USD exchange rate as of 31 December 2015 and 31 December 2014 was 72,8827 RUR/USD and 56,2584 RUR/USD respectively.

### 2.3.2 Translation from RUR as functional currency to USD as presentation currency

The presentation currency used in the preparation of these financial statements is United States Dollar ("USD") since management believes that the USD is more useful for the users of the financial statements.

The financial statements have been translated from the RUR (the functional currency) to the USD (the presentation currency) as follows:

- Assets, liabilities that are included to the statement of financial position as of 31 December 2015 have been translated to USD at the RUR/USD exchange rate of 72,8827;
- All income and expense items incurred during the year ended 31 December 2015 and shareholder's equity have been translated to USD at the average RUR/USD exchange rate of 60,9579;
- All resulting exchange differences have been recognized as "translation reserve" which is a separate component of shareholders' equity.

All amounts in the financial statements have been rounded to the nearest thousands.

# 2. Basis of preparation (continued)

## 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 3 "Significant accounting policies" (3.9 "Impairment") and Note 15 "Loans to customers" in respect of loan impairment allowance
- Note 26 "Deferred tax assets and liabilities" in respect of deferred tax assets and liabilities
- Note 31.4 "Taxation contingencies" in respect of tax contingencies.

# 3. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

## 3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

## 3.2 Cash and cash equivalents

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial assets at fair value through profit or loss with original maturity periods of less than three months to be cash and cash equivalents.

Cash and cash equivalents are reflected at amortised cost in the statement of financial position.

## 3.3 Financial instruments

The Bank classified its financial instruments into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

# 3. Significant accounting policies (continued)

## 3.3 Financial instruments (continued)

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at its fair value plus including transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

*Financial instruments at fair value through profit or loss*
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is 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 making, or is a derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as at fair value through profit or loss. 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.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value recognised in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

*Available-for-sale financial instruments*
Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognised in other comprehensive income, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognised in the total comprehensive income when they are sold or when the investment is impaired. Interest in relation to an available-for-sale financial asset is recognized as earned in the statement of comprehensive income calculated using the effective interest method.

*Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if there is an intention and ability of the Bank's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

# 3. Significant accounting policies (continued)

## 3.3 Financial instruments (continued)

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

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.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

## 3.4 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of any necessary provisions for impairment.

## 3.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

## 3.6 Leases

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The related asset 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 commencement of the lease, less accumulated depreciation and impairment losses. A corresponding amount is recognised as a finance lease liability.

Subsequent accounting for assets held under finance lease agreements correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

# 3. Significant accounting policies (continued)

## 3.6 Leases (continued)

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

## 3.7 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. 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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | 10 – 50 years |
| Vehicles | 4 years |
| Fixtures, fittings and other equipment | 5 – 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 3.8 Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortisation and impairment losses.

Amortisation is charged to the comprehensive income statement on a straight-line basis over the estimated useful lives of intangible assets. At the beginning of reporting period the estimated useful life of intangible assets was 3-10 years.

During the previous reporting period management has revised useful life of certain items of software from 10 to 30 years. Management considers that such a revision in useful life reflects better the economic substance of the software being used, owing to the specific nature and uniqueness of such software.

## 3.9 Impairment

The carrying amounts of Bank's financial assets carried at amortised cost/cost and non financial assets, non including deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

*Financial assets carried at amortised cost*
The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable 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 loan or

# 3. Significant accounting policies (continued)

## 3.9 Impairment (continued)

receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable 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 Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the statement of comprehensive income 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.

*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 respect of these investments are recognized in the statement of comprehensive income and can not be reversed.

*Non financial assets*
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 recognized in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered 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.

## 3.10 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

# 3. Significant accounting policies (continued)

## 3.11 Borrowed funds (including subordinated debt)

Borrowings are recognized initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over period of the borrowings using the effective interest rate method.

Borrowings originated at interest rate different from market rates are measured at origination to their fair value, being future interest payments and principal repayments discounted at market rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest rate method.

## 3.12 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recoded in the statement of income over the period of the security issue using the effective interest rate method.

## 3.13 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

## 3.14 Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognised initially at fair value and re-measured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 “Revenue”. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

## 3.15 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation Pension Fund, the Social Insurance Fund and the Federal Compulsory Medical Insurance Fund on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in staff costs in the statement of comprehensive income.

## 3.16 Taxation

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

# 3. Significant accounting policies (continued)

## 3.16 Taxation (continued)

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised of the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

## 3.17 Interest income and interest expense

Interest income and expense is recognized in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes 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 rate basis. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

## 3.18 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

## 3.19 Net result on financial instruments at fair value through profit or loss

Net result on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

## 3.20 Net result on available-for-sale financial assets

Net result on available-for-sale financial assets includes gains and losses arising from disposals of financial assets available-for-sale.

# 4. New standards and Interpretations

## 4.1 New Standards and interpretations effective in the current period

In the current year, the Bank has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

# 4. New standards and Interpretations (continued)

## 4.1 New Standards and interpretations effective in the current period (continued)

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**
The Bank has applied the amendments for the first time in the current year. Prior to the amendments, the Bank accounted for discretionary employee contributions to defined benefit plans as a reduction of the service cost when contributions were paid to the plans, and accounted for employee contributions specified in the defined benefit plans as a reduction of the service cost when services are rendered. The amendments require the Bank to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.

- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Bank recognizes the reduction in the service cost in the period in which the related services are rendered.

The application of these amendments has had no material impact on the disclosures or the amounts recognized in the financial statements.

**Annual Improvements to IFRSs 2010 – 2012 Cycle and 2011 – 2013 Cycle**
The Bank has applied the amendments to IFRSs included in the Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle for the first time in the current year. The application of the amendments has had no impact on the disclosures or amounts recognized in the financial statements.

## 4.2 New Standards and interpretations not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial instruments3 |
| IFRS 15 | Revenue from Contracts with Customers3 |
| IFRS 16 | Lease4 |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations1 |
| Amendments to IAS 1 | Disclosure Initiative1 |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation1 |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants1 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture1 |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception1 |
| Amendments to IAS 12 | Recognition of deferred tax assets for unrealized losses2 |
| Amendments to IFRS | Annual Improvements to IFRSs 2012-2014 Cycle1 |

1 Effective for annual periods beginning on January 1, 2016, with earlier application permitted.
2 Effective for annual periods beginning on January 1, 2017, with earlier application permitted.
3 Effective for annual periods beginning on January 1, 2018, with earlier application permitted.
4 Effective for annual periods beginning on or after January 1, 2019.

# 4. New standards and Interpretations (continued)

## 4.2 New Standards and interpretations not yet effective

**IFRS 9 "Financial instruments"**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss;
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized; and
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

# 4. New standards and Interpretations (continued)

## 4.2 New Standards and interpretations not yet effective (continued)

**IFRS 15 "Revenue from Contracts with Customers"**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Furthermore, extensive disclosures are required by IFRS 15. Management of the Bank anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Bank performs a detailed review.

**IFRS 16 "Lease"**

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

# 4. New standards and Interpretations (continued)

## 4.2 New Standards and interpretations not yet effective (continued)

**Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. Management of the Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the financial statements in future periods should such transactions arise.

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. Management of the Bank does not anticipate that the application of these amendments to IAS 1 will have a material impact on the financial statements.

**Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. Management of the Bank believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, Management of the Bank does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the financial statements.

# 4. New standards and Interpretations (continued)

## 4.2 New Standards and interpretations not yet effective (continued)

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Management of the Bank does not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the financial statements as the Bank is not engaged in agricultural activities.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Management of the Bank anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the financial statements in future periods should such transactions arise.

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management of the Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the financial statements as the Bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

# 4. New standards and Interpretations (continued)

## 4.2 New Standards and interpretations not yet effective (continued)

**Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses**

The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognize deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

**Annual Improvements to IFRSs 2012-2014 Cycle**

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.
The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management of the Bank does not anticipate that the application of these amendments will have a material effect on the financial statements.

## 5. Interest income and interest expense

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 13,966 | 15,888 |
| Debt securities | 4,892 | 6,760 |
| Placements with banks and other financial institutions | 1,883 | 988 |
| **Total interest income** | **20,741** | **23,636** |
| **Interest expense** | | |
| Deposits and balances from banks and other financial institutions | (3,368) | (4,653) |
| Current accounts and deposits from customers | (1,114) | (1,125) |
| Subordinated debt | (180) | (208) |
| Promissory notes | (8) | (172) |
| **Total interest expense** | **(4,670)** | **(6,158)** |

## 6. Fee and commission income and expense

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| **Fee and commission income** | | |
| Guarantees issued and trade finance | 1,257 | 1,897 |
| Settlement transactions | 466 | 701 |
| Agency fee | 324 | - |
| Currency control | 262 | 318 |
| Cash management | 223 | 336 |
| Other | - | 13 |
| **Total fee and commission income** | **2,532** | **3,265** |
| **Fee and commission expense** | | |
| Guarantees issued and trade finance | (438) | (969) |
| Settlement transactions | (190) | (224) |
| Cash management | (122) | (250) |
| Other | - | (10) |
| **Total fee and commission expense** | **(750)** | **(1,453)** |

## 7. Net losses on financial instruments at fair value through profit or loss

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Net losses on foreign exchange derivatives | (9,678) | (7,094) |
| **Net losses on foreign exchange derivatives** | **(9,678)** | **(7,094)** |

## 8. Net other operating income

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Fines and penalties | 2 | 86 |
| Income from disposal of fixed assets | - | 6 |
| Other income | 14 | - |
| **Total other operating income** | **16** | **92** |

## 9. General administrative expenses

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Employee compensation | 2,742 | 3,455 |
| Occupancy | 417 | 561 |
| Taxes other than on income | 168 | 221 |
| Depreciation and amortisation | 147 | 236 |
| IT support expenses | 97 | 237 |
| Repairs and maintenance | 89 | 39 |
| Communication and information services | 71 | 123 |
| Professional services | 70 | 137 |
| Security | 29 | 47 |
| Representation expenses | 9 | 22 |
| Insurance | 7 | 139 |
| Other | 278 | 288 |
| **Total general administrative expenses** | **4,124** | **5,505** |

## 10. Provision for loan impairment

**Analysis of movements in the provision for loans to customers**

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Balance at beginning of year (Note 15) | 150 | 172 |
| Effect of translation to presentation currency | (134) | (95) |
| Provision charge for impairment during the period | 605 | 73 |
| **Balance at the end of the year (Note 15)** | **621** | **150** |

## 11. Income tax expense

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| *Current tax expense* | | |
| Current period | 1,686 | 3,053 |
| *Deferred tax expense* | | |
| Origination of temporary differences | 1,106 | 74 |
| **Total income tax expense** | **2,792** | **3,127** |

The Bank's applicable tax rate for 2015 was 20% (2014 – 20%). Income tax rate on interest income from government and municipal financial instruments is 15%.

## 11. Income tax expense (continued)

**Reconciliation of theoretical income tax expenses with actual income tax expenses**

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Income before tax | 13,411 | 15,164 |
| Theoretical income tax benefit at the applicable statutory rate | 2,682 | 3,033 |
| Tax effect of non-deductible costs and non-taxable income | 110 | 94 |
| **Total income tax expense** | **2,792** | **3,127** |

## 12. Due from the CBR

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Nostro accounts | 14,959 | 4,820 |
| Deposits | 10,977 | - |
| Minimum reserve deposit | 1,597 | 2,511 |
| **Total due from the CBR** | **27,533** | **7,331** |

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawal is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

## 13. Placements with banks and other financial institutions

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Nostro accounts and deposits on demand | 57,856 | 86,798 |
| Deposits | 15,876 | 8,195 |
| **Total placements with banks and other financial institutions** | **73,732** | **94,993** |

As of 31 December 2015 and 31 December 2015 the Bank did not have any overdue balances on placements with banks and other financial institutions.

**Significant exposures**

As of 31 December 2015 the Bank had two related group of banks (2014: two related group of banks) whose balance exceeded 10% of the placements with banks and other financial institutions. The gross value of this exposure as of 31 December 2015 was 67,018 USD'000 (2014: 87,736 USD'000).

## 14. Derivative financial instruments

The fair values of derivative financial instruments as of 31 December 2015 are set out in the following table:

| | Notional or agreed amount | Fair values | | Weighted average exchange rate |
|---|---|---|---|---|
| | | Assets | Liabilities | |
| | USD'000 | USD'000 | USD'000 | |
| Derivative foreign exchange contracts to buy USD and sell RUB | 17,203 | 121 | - | 72,37 |
| **Total derivatives financial instruments** | **17,203** | **121** | **-** | |

The fair values of derivative financial instruments as of 31 December 2014 are set out in the following table:

| | Notional or agreed amount | Fair values | | Weighted average exchange rate |
|---|---|---|---|---|
| | | Assets | Liabilities | |
| | USD'000 | USD'000 | USD'000 | |
| Derivative foreign exchange contracts to buy EUR and sell USD | 72,281 | - | (37) | 1,22 |
| **Total derivatives financial instruments** | **72,281** | **-** | **(37)** | |

## 15. Loans to customers

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Loans to commercial customers | 148,580 | 184,365 |
| Loans to individuals | 262 | 414 |
| **Total loans before impairment** | **148,842** | **184,779** |
| Provision for loan impairment (Note 10) | (621) | (150) |
| **Total loans to customers** | **148,221** | **184,629** |

## 15. Loans to customers (continued)

Analysis of loans to customers and provision for impairment as of 31 December 2015 are presented below:

| In thousands of USD | Gross loans | Impairment | Net loans | Impairment to gross loans (%) |
|---|---|---|---|---|
| **Commercial loans** | | | | |
| Collectively assessed for impairment: | | | | |
| standard loans not past due | 148,580 | (621) | 147,959 | 0,42% |
| **Total commercial loans** | **148,580** | **(621)** | **147,959** | **0,42%** |
| **Retail loans** | | | | |
| Collectively assessed for impairment: | | | | |
| past due | 262 | - | 262 | 0,00% |
| **Total retail loans** | **262** | **-** | **262** | **0,00%** |
| **Total loans to customers** | **148,842** | **(621)** | **148,221** | **0,42%** |

Analysis of loans to customers and provision for impairment as of 31 December 2014 are presented below:

| In thousands of USD | Gross loans | Impairment | Net loans | Impairment to gross loans (%) |
|---|---|---|---|---|
| **Commercial loans** | | | | |
| Collectively assessed for impairment: | | | | |
| standard loans not past due | 184,365 | (150) | 184,215 | 0,08% |
| **Total commercial loans** | **184,365** | **(150)** | **184,215** | **0,08%** |
| **Retail loans** | | | | |
| Collectively assessed for impairment: | | | | |
| standard loans not past due | 414 | - | 414 | 0,00% |
| **Total retail loans** | **414** | **-** | **414** | **0,00%** |
| **Total loans to customers** | **184,779** | **(150)** | **184,629** | **0,08%** |

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2015:

| In thousands of USD | Commercial loans | Retail loans | Total loans | Share in loan portfolio (%) |
|---|---|---|---|---|
| Guarantees issued by banks | 114,154 | - | 114,154 | 77,02% |
| Other collaterals | 33,805 | 93 | 33,898 | 22,87% |
| Unsecured | - | 169 | 169 | 0,11% |
| **Total loans to customers** | **147,959** | **262** | **148,221** | |

## 15. Loans to customers (continued)

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2014:

| In thousands of USD | Commercial loans | Retail loans | Total loans | Share in loan portfolio (%) |
|---|---|---|---|---|
| Guarantees issued by banks | 139,171 | - | 139,171 | 75,38% |
| Other collaterals | 43,266 | 167 | 43,433 | 23,52% |
| Unsecured | 1,778 | 247 | 2,025 | 1,10% |
| **Total loans to customers** | **184,215** | **414** | **184,629** | |

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Construction, glass and mining | 40,378 | 47,360 |
| Trade | 32,278 | 41,441 |
| Manufacturing | 28,092 | 35,634 |
| Forestry | 14,226 | 20,677 |
| Farming and Cattle | 10,601 | - |
| Rent services | 8,733 | 8,746 |
| Food services | 7,096 | 5,582 |
| Tourism and transportation | 2,621 | 18,502 |
| Publishing and printing | 2,477 | 3,164 |
| Real state | 2,078 | 3,154 |
| Retail customers | 262 | 414 |
| Services | - | 105 |
| **Total loans before impairment** | **148,842** | **184,779** |
| Provision for impairment | (621) | (150) |
| **Total loans to customers** | **148,221** | **184,629** |

### Significant exposures

As of 31 December 2015 the Bank had three exposures to related group of companies (2014: the Bank had five exposures), which individually comprised more than 10% of loans to customers. The gross value of these exposures as of 31 December 2015 was 55,991 USD'000 (2014: 106,639 USD'000) and additional amount related guarantees issued by Bank 151 USD'000 (2014: 142 USD'000).

### Critical accounting estimates and judgements

The Bank has estimated the provision for impairment on loans to customers in accordance with accounting policy described in Note 3.9 "Impairment". Management estimates the likelihood of repayment of loans and advances to customers based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history with the customer, timeliness of payments and collateral, if any.

# 16. Financial assets available-for-sale

## 16.1 Unpledged financial assets available-for-sale

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| **Debt instruments** | | |
| Corporate bonds | 6,879 | 20,086 |
| Bank's bonds | 12,841 | 7,016 |
| **Total unpledged financial assets available-for-sale** | **19,720** | **27,102** |

## 16.2 Pledged financial assets available-for-sale

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| **Debt instruments** | | |
| Corporate bonds | - | 17,287 |
| Bank's bonds | - | 5,899 |
| **Total pledged financial assets available-for-sale** | **-** | **23,186** |

The following table provides details of Bank's debt securities of the Bank as of 31 December 2015:

| | **Maturity** | | **Interest range** | |
|---|---|---|---|---|
| | **minimum** | **maximum** | **minimum** | **maximum** |
| Corporate bonds | February 2016 | March 2033 | 8,00% | 17,00% |
| Bank's bonds | January 2016 | September 2023 | 7,90% | 8,80% |

The following table provides details of Bank's debt securities of the Bank as of 31 December 2014:

| | **Maturity** | | **Interest range** | |
|---|---|---|---|---|
| | **minimum** | **maximum** | **minimum** | **maximum** |
| Corporate bonds | June 2015 | March 2033 | 7,50% | 9,85% |
| Bank's bonds | January 2016 | September 2023 | 7,65% | 8,55% |

# 17. Other asset

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Deposits and advances paid | 109 | 191 |
| Tax prepayment other than income tax | 12 | 19 |
| **Total other assets** | **121** | **210** |

## 18. Property and equipment

The movements in the property and equipment were as follows:

| In thousands of USD | Leasehold improvements | Fixtures and fittings | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2015 | 199 | 463 | 47 | 709 |
| Additions | - | 6 | 34 | 40 |
| Disposals | - | (8) | - | (8) |
| Effect of translation to presentation currency | (45) | (106) | (11) | (162) |
| **At 31 December 2015** | **154** | **355** | **70** | **579** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2015 | (116) | (265) | (26) | (407) |
| Depreciation charge (Note 9) | (11) | (47) | (12) | (70) |
| Disposals | - | 8 | - | 8 |
| Effect of translation to presentation currency | 28 | 67 | 8 | 103 |
| **At 31 December 2015** | **(99)** | **(237)** | **(30)** | **(366)** |
| | | | | |
| **Carrying value** | | | | |
| At 31 December 2014 | 83 | 198 | 21 | 302 |
| | | | | |
| **At 31 December 2015** | **55** | **118** | **40** | **213** |

| In thousands of USD | Leasehold improvements | Fixtures and fittings | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 343 | 828 | 135 | 1,306 |
| Additions | - | 1 | - | 1 |
| Disposals | - | (21) | (32) | (53) |
| Effect of translation to presentation currency | (144) | (345) | (56) | (545) |
| **At 31 December 2014** | **199** | **463** | **47** | **709** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2014 | (179) | (396) | (80) | (655) |
| Depreciation charge (Note 9) | (17) | (78) | (18) | (113) |
| Disposals | - | 19 | 32 | 51 |
| Effect of translation to presentation currency | 80 | 190 | 40 | 310 |
| **At 31 December 2014** | **(116)** | **(265)** | **(26)** | **(407)** |
| | | | | |
| **Carrying value** | | | | |
| At 31 December 2013 | 164 | 432 | 55 | 651 |
| | | | | |
| **At 31 December 2014** | **83** | **198** | **21** | **302** |

## 19. Intangible assets

The movements in the intangible assets were as follows:

| In thousands of USD | Licenses |
|---|---|
| **Cost** | |
| At 1 January 2015 | 1,996 |
| Additions | 65 |
| Disposal | (538) |
| Effect of translation to presentation currency | (455) |
| **At 31 December 2015** | **1,068** |
| **Accumulated depreciation** | |
| At 1 January 2015 | (1,246) |
| Depreciation charge (Note 9) | (77) |
| Disposal | 534 |
| Effect of translation to presentation currency | 297 |
| **At 31 December 2015** | **(492)** |
| **Carrying value** | |
| At 31 December 2014 | 750 |
| **At 31 December 2015** | **576** |

| In thousands of USD | Licenses |
|---|---|
| **Cost** | |
| At 1 January 2014 | 3,349 |
| Additions | 48 |
| Disposal | - |
| Effect of translation to presentation currency | (1,401) |
| **At 31 December 2014** | **1,996** |
| **Accumulated depreciation** | |
| At 1 January 2014 | (1,997) |
| Depreciation charge (Note 9) | (123) |
| Disposal | - |
| Effect of translation to presentation currency | 874 |
| **At 31 December 2014** | (1,246) |
| **Carrying value** | |
| At 31 December 2013 | 1,352 |
| **At 31 December 2014** | **750** |

## 20. Amount payables under repurchase agreements

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| **Amounts due to banks and other financial institutions** | **-** | **22,501** |

### Securities pledged

The Bank pledged the following debt securities as collateral for amounts owed under repurchase agreements (Note 16 "Financial assets available-for-sale"):

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Corporate bonds | - | 17,287 |
| Bank's bonds | - | 5,899 |
| **Total pledged financial assets available-for-sale** | **-** | **23,186** |

## 21. Deposits and balances from banks and other financial institutions

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Term deposits | 170,936 | 206,410 |
| Vostro accounts | 12,742 | 7,192 |
| **Total deposits and balances from banks and other financial institutions** | **183,678** | **213,602** |

### Significant exposures

As of 31 December 2015 there was one related group of banks, which individually comprised more than 10% of deposits and balances from banks and other financial institutions (2014: one related group). The gross value of these deposits as of 31 December 2015 was 182,971 USD'000 (2014: 210,170 USD'000).

## 22. Current accounts and deposits from customers

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Current accounts and demand deposits: | | |
| - commercial customers | 17,286 | 23,218 |
| - retail customers | 1,214 | 2,891 |
| Term deposits: | | |
| - commercial customers | 4,682 | 21,650 |
| - retail customers | 3,907 | 3,492 |
| **Total current accounts and deposits from customers** | **27,089** | **51,251** |

### Significant exposures

As of 31 December 2015 there was one group of companies, which individually comprised more than 10% of current accounts and deposits from customers (2014: two groups of companies). Total value of this balance as of 31 December 2015 was 2,903 USD'000 (2014: 20,276 USD'000).

The table below displays customer accounts and deposits from customers by economic branches:

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Whole trade | **7,896** | 6,582 |
| Construction | **6,869** | 21,457 |
| Retail customers | **5,121** | 6,383 |
| Mineral manufacturing | **2,276** | 1,312 |
| Financial services | **2,202** | 4,758 |
| Transport and communication | **754** | 5,864 |
| Real estate | **589** | 643 |
| Paper-and-pulp industry and publishing activities | **467** | 554 |
| Equipment manufacturing | **436** | 1,387 |
| Electric-power production | **149** | 1,045 |
| Manufacturing activity | **142** | 998 |
| Metallurgy industry | **133** | 201 |
| Chemical production | **24** | 4 |
| Mining | **15** | 61 |
| Entrepreneur | **15** | - |
| Other | **1** | 2 |
| **Total current accounts and deposits from customers** | **27,089** | **51,251** |

## 23. Debt securities issued

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| **Promissory notes** | **3,609** | **1,472** |

## 23. Debt securities issued (continued)

**Pledged promissory notes**

As at 31 December 2015 promissory notes with notional amount of 3,663 USD’000 (2014: 1,503 USD’000) were pledged as collateral for guarantees issued by the Bank. Amortised cost of these securities as of 31 December 2015 was 3,609 USD'000 (2014: 1,472 USD’000).

## 24. Subordinated debt

As at 31 December 2015 Bank shareholders granted to the Bank the following subordinated loans:

- US dollars denominated loan in amount of 700 USD’000 (2014: 700 USD’000) maturing in December 2025 and annual interest rate of LIBOR + 3,1%;
- US dollars denominated loan in the amount of 2,000 USD’000 (2014: 2,000 USD’000) maturing in December 2025 and annual interest rate of LIBOR + 2%;
- US dollars denominated loan in the amount of 1,000 USD’000 (2014: 1,000 USD’000) maturing in December 2025 and annual interest rate of LIBOR + 2%;
- EUR denominated loan in the amount equivalent to 5,194 USD’000 (2014: 5,770 USD’000) maturing in December 2025 and annual interest rate of LIBOR + 1%.

## 25. Other liabilities

| | **31 December 2015 USD’000** | 31 December 2014 USD’000 |
|---|---|---|
| Payable to employees | 144 | 424 |
| Unsettled transactions | 32 | - |
| Trade payables | 27 | 26 |
| Taxes payable other than income tax | 15 | 12 |
| **Total other liabilities** | **218** | 462 |

## 26. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

| In thousands of USD | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **31 December 2015** | 31 December 2014 | **31 December 2015** | 31 December 2014 | **31 December 2015** | 31 December 2014 |
| Derivative financial instruments | **-** | 7 | **(24)** | - | **(24)** | 7 |
| Loans to customers | **-** | - | **(1,255)** | (533) | **(1,255)** | (533) |
| Financial assets available-for-sale | **20** | 1,872 | **-** | - | **20** | 1,872 |
| Property and equipment | **-** | - | **(29)** | (38) | **(29)** | (38) |
| Intangible assets | **25** | 36 | **-** | - | **25** | 36 |
| Other assets | **-** | 5 | **-** | - | **-** | 5 |
| Other liabilities | **34** | 91 | **-** | - | **34** | 91 |
| **Tax assets / (liabilities)** | **79** | 2,011 | **(1,308)** | (571) | **(1,229)** | 1,440 |

**Movement in temporary differences during the year ended 31 December 2015**

| In thousands of USD | Balance at 1 January 2015 | Recognised in profit and loss statement | Recognised in other comprehen-sive income | Effect of translation to presentation currency | Balance at 31 December 2015 |
|---|---|---|---|---|---|
| Derivative financial instruments | **7** | (29) | - | (2) | **(24)** |
| Loans to customers | **(533)** | (844) | - | 122 | **(1,255)** |
| Financial assets available-for-sale | **1,872** | (208) | (1,842) | 198 | **20** |
| Property and equipment | **(38)** | 18 | - | (9) | **(29)** |
| Intangible assets | **36** | (3) | - | (8) | **25** |
| Other assets | **5** | (4) | - | (1) | **-** |
| Other liabilities | **91** | (36) | - | (21) | **34** |
| **Tax assets / (liabilities)** | **1,440** | **(1,106)** | **(1,842)** | **279** | **(1,229)** |

## 26. Deferred tax assets and liabilities (continued)

**Movement in temporary differences during the year ended 31 December 2014**

| In thousands of USD | Balance at 1 January 2014 | Recognised in profit and loss statement | Recognised in other comprehen-sive income | Effect of translation to presentation currency | Balance at 31 December 2014 |
|---|---|---|---|---|---|
| Derivative financial instruments | **41** | (24) | - | (10) | **7** |
| Loans to customers | **(766)** | (128) | - | 361 | **(533)** |
| Financial assets available-for-sale | **21** | (17) | 1,871 | (3) | **1,872** |
| Property and equipment | **(60)** | (4) | - | 26 | **(38)** |
| Intangible assets | **61** | 1 | - | (26) | **36** |
| Other assets | **9** | - | - | (4) | **5** |
| Promissory notes | **(1)** | 1 | - | - | **-** |
| Other liabilities | **40** | 97 | - | (46) | **91** |
| **Tax assets / (liabilities)** | **(655)** | **(74)** | **1,871** | **298** | **1,440** |

## 27. Shareholders' Equity

At 31 December 2015 the authorised, issued and fully paid outstanding share capital comprises 192,300 ordinary shares with a par value RUR 5,869 per share.

| | **2015** | **2014** | 2013 |
|---|---|---|---|
| Issued and fully paid ordinary shares | 192,300 | 192,300 | 192,300 |
| **Issued and fully paid ordinary shares** | **192,300** | **192,300** | 192,300 |

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of 31 December 2015, retained earnings available for distribution amounted to 24,893 USD'000.

# 28. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates.

The Executive Management Board has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures. The Assets and Liabilities Management Committee ("ALCO") as well as operational departments are accountable for all risks assumed and responsible for their continuous and active management. An independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of the Bank.

The Risk Management Service of the Bank is responsible for the monitoring and implementation of risk management measures and oversight that the Bank operates within the established risk parameters.

Market (price, interest rate, currency risks), credit and liquidity risks are managed and controlled through a system of Committees (weekly ALCO meeting, and monthly Risk Committee meeting (including Market, Credit and Liquidity Risk Committees)), established by the Executive Management Board.

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

*Credit Risk management*

Credit risk management includes approval of credit limits and their continuous monitoring and update, analyses of customers applications and creditworthiness of applicants, approval of interest rates, approval of segregation of duties and authorities, continuous credit monitoring, credit portfolio management, including non-performing loans.

The Risk Management Service of the Bank forms credit risk policy. The Executive Management Board approves credit risk policy and approves key credit risk related transactions. Where necessary Executive Management Board approves Credit Committee decisions and establishes limits of authority.

Credit Committee of the Bank is responsible for the approval of credit risk related transactions in Roubles and foreign currencies with commercial legal entities and individuals. Credit Committee is also authorized to approve any changes to the existing credit risk transactions.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Service, Credit Allocation and Financial Analysis Department and Financial Institutions Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Executive Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

# 28. Risk management (continued)

## 28.1 Credit risk

Credit risk limits, which comply with DenizBank Financial Services Group Credit Risk Policy, are approved by Risk Management Department of DenizBank A.S. on consolidated basis for DenizBank AG, DenizBank A.S. and the Bank. For the Bank, the total credit limit is set per country (Russia) in absolute amount, with a breakdown into counterparty types (corporate, bank, etc.). When the specific transaction exceeds the limits, a file is submitted to the Risk Management Service of Bank and ALCO.

During normal course of business the Bank also uses methodologies prescribed by the CBR for determining the ratios of maximum credit risk exposures, as well as other best practices.

Every credit application is analyzed by the Bank taking into account the following aspects:

- Analyses of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry;
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors;
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position;
- Analyses of the creditworthiness of the customer are made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

*Collateral and other credit enhancements*

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit.

Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument).

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

# 28. Risk management (continued)

## 28.1 Credit risk

*Settlement risk*

The Bank's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

## 28.2 Offsetting of financial instruments

Disclosures presented in the following tables include information on financial assets and financial liabilities which are:

- offset in a financial statement of the Bank or
- are subject to a legally enforceable agreement of offsetting or similar agreements that apply to similar financial instruments, regardless of whether they are offset in a consolidated financial statement.

Operations with derivative financial instruments of the bank, which are not carried on a stock exchange, conducted in accordance with general agreements with counterparties of the Bank. Basically, in accordance with these agreements, the amounts payable by each counterparty on a particular day in respect of pending operations in the same currency form a single net amount payable by one party to the other. Under certain circumstances such as credit event or default; all outstanding transactions under contracts are terminated. The net value of transactions at the time of termination is estimated and paid as a single amount.

# 28. Risk management (continued)

## 28.2 Offsetting of financial instruments (continued)

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2015.

| USD'000 Type of financial assets/financial liabilities | Total sum of financial assets/financial liabilities | Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement | Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement | Sums which were not offset in a consolidated financial statement | | Net sum |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Obtained cash security | |
| Derivatives - assets | 121 | - | 121 | (121) | - | - |
| Accounts receivable under reverse REPO agreements | | | | | | |
| **Total financial assets** | **121** | **-** | **121** | **(121)** | **-** | **-** |

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2014.

| USD'000 Type of financial assets/financial liabilities | Total sum of financial assets/financial liabilities | Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement | Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement | Sums which were not offset in a consolidated financial statement | | Net sum |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Obtained cash security | |
| Derivatives - assets | - | - | - | - | - | - |
| Accounts receivable under reverse REPO agreements | 23,186 | - | 23,186 | (23,186) | - | - |
| **Total financial assets** | **23,186** | **-** | **23,186** | **(23,186)** | **-** | **-** |
| | | | | | | |
| Derivatives- liabilities | 37 | - | 37 | (37) | - | - |
| Accounts payable under REPO agreements | 22,501 | - | 22,501 | (22,501) | | |
| **Total financial liabilities** | **22,538** | **-** | **22,538** | **(22,538)** | **-** | **-** |

## 28.3 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

*Price risk*
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

Sensitivity analyses below shows possible effect of the price change of the value of financial instruments as of 31 December 2015 which would have been on the statement of comprehensive income and shareholders' equity given a 10% change in price.

| USD'000 | **2015** | **2014** |
|---|---|---|
| Price risk on fixed income debt securities | 1,957 | 5,886 |

*Foreign exchange rate risk*
The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the CBR limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Executive Management Board.

The following table details the Bank's sensitivity analysis and possible effect on the statement of comprehensive income and shareholders' equity as of 31 December 2015 assuming a 10% change in the functional currency against the relevant foreign currency.

| USD'000 | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Comprehensive income** | **Capital** | **Comprehensive income** | **Capital** |
| 10% increase USD/RUR rate | 21 | 21 | 27 | 27 |
| 10% decrease USD/RUR rate | (21) | (21) | (27) | (27) |
| 10% increase EUR/RUR rate | 4 | 4 | 26 | 26 |
| 10% decrease EUR/RUR rate | (4) | (4) | (26) | (26) |

See Note 38 "Currency analysis".

*Interest rate risk*

Interest rate risk is measured by the extent to which changes in market interest rates impact on 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.

# 28. Risk management (continued)

## 28.3 Market risk (continued)

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's 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.

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Settlement Treasury Department of the Bank is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows.

An analyses of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's statement of comprehensive income and shareholders' equity is presented as follows:

USD'000

| | **2015** | **2014** |
|---|---|---|
| 100 bp parallel increase | (883) | (1,484) |
| 100 bp parallel decrease | 883 | 1,484 |

Note 35 "Average effective interest rates" shows analyses of Bank's interest bearing assets and liabilities to their corresponding average effective interest rates for all major currencies.

Note 36 "Interest rate repricing analysis" shows analyses of Bank's assets and liabilities by contractual interest rate repricing date.

## 28.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Treasury Department is responsible for daily management of the current, short-term and long-term liquidity position of the Bank.

Liquidity Management Committee, Credit/Finance Committee are responsible for monitoring the liquidity positions of the Bank. Internal Control Committee insures that appropriate procedures are in place over the management and control of the liquidity positions.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios include:

- Instant liquidity ratio (N2), which shows liquidity risk position within one operational day and is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which shows liquidity risk position within the next 30 calendar days and is calculated as the ration of liquid assets to liabilities maturing within 30 calendar days;
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The Bank was in compliance with the above ratios during the year ended 31 December 2015.

For more effective liquidity risk management Liquidity Management Committee has the right to set stricter liquidity ratio values.

See also Note 37 “Maturity analysis”.

# 28. Risk management (continued)

## 28.5 Capital management

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital requirements are determined for different operations and activities as to maximize the return on the distributed capital taking into account respective risk factors. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. Capital requirements and distribution policies are analyzed and approved on a regular basis by the Board of Directors during annual budgeting process for the Bank and different business processes.

The CBR sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets (“Capital Adequacy Ratio”) above the prescribed minimum level. As of 31 December 2015 and 31 December 2014 this minimum level was 10%.

As of 31 December 2015 the Capital Adequacy Ratio calculated in accordance with the requirements of the CBR was 22,72% (as of 31 December 2014: 17,28%). This ratio is calculated based on the statutory financial statements before the adjustments that will be done in accordance with the requirements of the CBR for purposes of statutory annual report.

# 29. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| **Contracted amount** | | |
| Guarantees and letters of credit | 69,788 | 93,297 |
| Undrawn loan commitments | 8,983 | 30,917 |
| **Total commitments** | **78,771** | **124,214** |

Some of the above commitments may expire or terminate without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash outflows.

### Significant exposures

As of 31 December 2015 the Bank had three exposures to counterparties (2014: three exposures to counterparties), which individually comprised more than 10% of guarantees issued. The gross value of these exposures as of 31 December 2015 was 61,418 USD'000 (2014: 65,800 USD'000).

# 30. Operating leases

The Bank leases a number of premises under operating lease. Non-cancellable operating lease rentals are payable as follows:

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Less than one year | 390 | 663 |
| Between one and five years | 281 | 1,124 |
| **Total operating leases** | **671** | 1,787 |

# 31. Contingencies

## 31.1 Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

During 2015 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2015:

- the CBR exchange rate fluctuated between RUB 49,1777 and RUB 72,8827 per USD;
- the CBR key refinancing interest rate decreased from 17,0% p.a. to 11,0% p.a.;
- the RTS stock exchange index ranged between 725 and 1 082;
- access to international financial markets to raise funding is still limited for certain entities and capital outflows increased compared to prior years;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. In February 2015 Moody's downgraded Russia's rating to Ba1 from Baa3. Fitch Ratings still has Russia as investment grade.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2015:

- the CBR exchange rate continued to fluctuate significantly;
- the RTS stock exchange index continued to fluctuate significantly;
- banks' lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

These events may have a further significant impact on the Bank's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Bank's operations may differ from management's current expectations.

# 31. Contingencies (continued)

## 31.1 Russian business environment (continued)

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability and increased corporate and personal insolvencies may affect the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

## 31.2 Insurance

The Bank insures its fixed assets amounting to 520 USD'000, civil liability amounting to 206 USD'000, cash on hand amounting to 1,784 USD'000 and business interruption amounting 6,071 USD'000. The Bank does not have full coverage for business termination, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

## 31.3 Litigation

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

## 31.4 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

# 32. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.
The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices), and
- level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Management of the Bank considers that estimated fair values of all financial assets and liabilities as of 31 December 2015 and 31 December 2014 are not materially different from their carrying amounts.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2015:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets available-for-sale | 19,720 | - | - | **19,720** |
| Derivative financial instruments | 121 | - | - | **121** |

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2014:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets available-for-sale | 50,288 | - | - | **50,288** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 37 | - | - | **37** |

## 32. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2015:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | 1,809 | - | - | **1,809** |
| Due from the Central Bank of Russia | 14,959 | 10,977 | 1,597 | **27,533** |
| Placements with banks and other financial institutions | 57,856 | 15,876 | - | **73,732** |
| Loans to customers | - | - | 148,221 | **148,221** |
| **Financial liabilities** | | | | |
| Deposits and balances from banks and other financial institutions | 12,742 | 170,936 | - | **183,678** |
| Current accounts and deposits from customers | 18,500 | 8,589 | - | **27,089** |
| Debt securities issued | - | 3,609 | - | **3,609** |
| Subordinated loans | - | 8,894 | - | **8,894** |

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2014:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | 2,271 | - | - | **2,271** |
| Due from the Central Bank of Russia | 4,821 | - | 2,510 | **7,331** |
| Placements with banks and other financial institutions | 86,798 | 8,195 | - | **94,993** |
| Loans to customers | - | 184,629 | - | **184,629** |
| **Financial liabilities** | | | | |
| Amount payables under repurchase agreements | 22,501 | - | - | **22,501** |
| Deposits and balances from banks and other financial institutions | 7,192 | 206,410 | - | **213,602** |
| Current accounts and deposits from customers | 26,109 | 25,142 | - | **51,251** |
| Debt securities issued | - | 1,472 | - | **1,472** |
| Subordinated loans | - | 9,470 | - | **9,470** |

# 33. Related party transactions

The Bank's shareholding structure is as follows: DenizBank A.S. 49% and DenizBank AG 51%.

Both DenizBank A.S. and DenizBank AG are part of DenizBank Financial Services Group, which before October 2007 was part of a larger Zorlu Group – a significant financial and industrial group in Turkey. In October 2007, Dexia Participation Belgique SA, 100% of which is directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2007 Dexia acquired the remaining shares listed on Istanbul stock exchange and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more than 50% of which are owned by the CBR, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

## 33.1 Transactions with Directors and Management

Within 2015 total Directors and Management remuneration was 930 USD'000 (2014: 821 USD'000).

All transactions with Directors and Management were concluded on an arm's length basis.

The outstanding balances and average interest rates as at 31 December 2015 and 31 December 2014 with Directors and Management are as follows:

| | **31 December 2015 USD'000** | **Average Interest Rate** | 31 December 2014 USD'000 | Average Interest Rate |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans to customers | 3 | 11% | 11 | 11,0% |
| **Liabilities** | | | | |
| Current accounts and deposits from customers | 1,760 | 2,5% | 1,717 | 3,6% |
| Other liabilities | 89 | - | 207 | - |

## 33.2 Transactions with Shareholders

| | **31 December 2015 USD'000** | **Average Interest Rate** | 31 December 2014 USD'000 | Average Interest Rate |
|---|---|---|---|---|
| **Assets** | | | | |
| Placements with banks and other financial institutions | 54,190 | 2,4% | 51,297 | 1,0% |
| Derivative financial instruments | 121 | - | - | - |
| **Liabilities** | | | | |
| Deposits and balances from banks and other financial institutions | 182,971 | 0,6% | 210,170 | 0,7% |
| Subordinated debt | 8,894 | 2,0% | 9,470 | 2,0% |
| Derivative financial instruments | - | - | 37 | - |

**Commitments and Contingent liabilities**

As at 31 December 2015 the Bank has also obtained from shareholders thirty three letters of guarantee (2014: thirty eight) as securities for granted loans to customers with total value of 158,072 USD'000 (2014: 171,380 USD'000 ) and four letters of guarantee (2014: five letters of guarantee) as security for guarantees issued with total value of 18,855 USD'000 (2014: 19,100 USD'000).

## 33. Related party transactions (continued)

Amounts included in the statement of comprehensive income in relation to transactions with Shareholders are as follows:

| | **2015 USD'000** | 2014 USD'000 |
|---|---|---|
| Interest income | 549 | 578 |
| Interest expense | (2,532) | (1,642) |
| Fee and commission income | 724 | 508 |
| Fee and commission expense | (428) | (909) |
| Net loss on financial instruments at fair value trough profit or loss | (1,440) | (104) |
| Net gain (loss) from foreign exchange transactions | (437) | 1,599 |

## 34. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

| | **31 December 2015 USD'000** | 31 December 2014 USD'000 |
|---|---|---|
| Cash | 1,809 | 2,271 |
| Due from the Central Bank of Russia | 27,533 | 7,331 |
| Placements with banks and other financial institutions | 73,715 | 94,992 |
| **Total cash and cash equivalents** | **103,057** | 104,594 |

## 35. Average effective interest rates

The table below represents the Bank's interest bearing assets and liabilities interest rates range for all major currencies as at 31 December 2015 and 31 December 2014:

| | **31 December 2015 Interest Rate Range** | 31 December 2014 Interest Rate Range |
|---|---|---|
| **Interest Bearing Assets** | | |
| **Due from the Central Bank of Russia** | **0 – 10%** | 0% |
| **Placements with banks and other financial institutions** | | |
| - Roubles | **0 – 13%** | 0-20% |
| - USD | **0%** | 0% |
| - EUR | **0%** | 0% |
| - Other | **0%** | 0% |
| **Loans to customers** | | |
| - Roubles | **10 – 20%** | 10-32% |
| - USD | **2 – 12%** | 4-12% |
| - EUR | **4 – 8%** | 4-7% |
| **Financial assets available-for-sale** | | |
| - Roubles | **8 – 17%** | 8-10% |
| **Interest Bearing Liabilities** | | |
| **Amounts under repurchased agreements** | | |
| - Roubles | **0%** | 17% |
| **Deposits and balances from banks and other financial institutions** | | |
| - Roubles | **0%** | 0-25% |
| - USD | **0 – 2%** | 0% |
| - EUR | **0 – 1%** | 0-4% |
| **Current accounts and deposits from customers** | | |
| - Roubles | **0 – 13%** | 6-15% |
| - USD | **0 – 4%** | 2-4% |
| - EUR | **1 – 3%** | 0-4% |
| - Other | **0%** | 0% |
| **Debt securities issued** | | |
| - Roubles | **0 – 7%** | 0-9% |
| - USD | **0 – 3%** | 1% |
| **Subordinated debt** | | |
| - USD | **3 – 4%** | 3-4% |
| - EUR | **1%** | 2% |

## 36. Interest rate repricing analysis

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2015.

| | Less than 1 month USD'000 | 1 to 3 Months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 1,809 | - | - | - | - | **1,809** |
| Due from the Central Bank of Russia | 27,533 | - | - | - | - | **27,533** |
| Placements with banks and other financial institutions | 73,732 | - | - | - | - | **73,732** |
| Derivative financial instruments | 121 | - | - | - | - | **121** |
| Loans to customers | 35,861 | 37,296 | 53,877 | 21,187 | - | **148,221** |
| Financial assets available-for-sale | 3,620 | 7,135 | 8,965 | - | - | **19,720** |
| Other assets | - | - | - | - | 121 | **121** |
| Property and equipment | - | - | - | - | 213 | **213** |
| Intangible assets | - | - | - | - | 576 | **576** |
| Current tax assets | - | - | - | - | 326 | **326** |
| **Total Assets** | **142,676** | **44,431** | **62,842** | **21,187** | **1,236** | **272,372** |
| **Liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | 112,484 | 71,194 | - | - | - | **183,678** |
| Current accounts and deposits from customers | 24,201 | 2,302 | 586 | - | - | **27,089** |
| Debt securities issued | - | 521 | 2,734 | 354 | - | **3,609** |
| Subordinated debt | - | - | 8,894 | - | - | **8,894** |
| Other liabilities | - | - | - | - | 218 | **218** |
| Deferred tax liabilities | - | - | - | - | 1,229 | **1,229** |
| **Total Liabilities** | **136,685** | **74,017** | **12,214** | **354** | **1,447** | **224,717** |
| **Net position as at 31 December 2015** | **5,991** | **(29,586)** | **50,628** | **20,833** | **(211)** | **47,655** |
| Net position as at 31 December 2014 | (43,783) | (17,063) | 37,474 | 64,551 | 1,719 | 42,898 |

## 36. Interest rate repricing analysis (continued)

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2014.

| | Less than 1 month USD'000 | 1 to 3 Months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 2,271 | - | - | - | - | 2,271 |
| Due from the Central Bank of Russia | 7,331 | - | - | - | - | 7,331 |
| Placements with banks and other financial institutions | 94,993 | - | - | - | - | 94,993 |
| Loans to customers | 16,414 | 76,252 | 57,193 | 34,770 | - | 184,629 |
| Financial assets available-for-sale | - | 1,691 | 18,219 | 30,378 | - | 50,288 |
| Other assets | - | - | - | - | 210 | 210 |
| Property and equipment | - | - | - | - | 302 | 302 |
| Intangible assets | - | - | - | - | 750 | 750 |
| Deferred tax assets | - | - | - | - | 1,440 | 1,440 |
| **Total Assets** | **121,009** | **77,943** | **75,412** | **65,148** | **2,702** | **342,214** |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 37 | - | - | - | - | 37 |
| Amount payables under repurchase agreements | 22,501 | - | - | - | - | 22,501 |
| Deposits and balances from banks and other financial institutions | 95,074 | 91,769 | 26,759 | - | - | 213,602 |
| Current accounts and deposits from customers | 47,174 | 3,106 | 971 | - | - | 51,251 |
| Debt securities issued | 6 | 131 | 738 | 597 | - | 1,472 |
| Subordinated debt | - | - | 9,470 | - | - | 9,470 |
| Other liabilities | - | - | - | - | 462 | 462 |
| Current tax liabilities | - | - | - | - | 521 | 521 |
| **Total Liabilities** | **164,792** | **95,006** | **37,938** | **597** | **983** | **299,316** |
| **Net position as at 31 December 2014** | **(43,783)** | **(17,063)** | **37,474** | **64,551** | **1,719** | **42,898** |
| Net position as at 31 December 2013 | (32,062) | (25,546) | 40,278 | 88,407 | 1,396 | 72,472 |

## 37. Maturity analysis

The following table shows the undiscounted cash flows as of 31 December 2015 of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Notional value of cash flow USD'000 | Carrying value USD'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances from banks and other financial institutions | 112,503 | 71,340 | - | - | - | **183,843** | **183,678** |
| Current accounts and deposits from customers | 24,211 | 2,314 | 597 | - | - | **27,122** | **27,089** |
| Debt securities issued | - | 521 | 2,786 | 357 | - | **3,664** | **3,609** |
| Subordinated debt | - | - | 174 | 10,460 | - | **10,634** | **8,894** |
| Other liabilities | - | - | - | - | 218 | **218** | **218** |
| **Derivative financial instruments** | | | | | | | |
| Inflow | (17,203) | - | - | - | - | **(17,203)** | **(121)** |
| Outflow | 17,082 | - | - | - | - | **17,082** | **-** |
| **Total liabilities** | **136,593** | **74,175** | **3,557** | **10,817** | **218** | **225,360** | **223,367** |
| **Credit related commitments** | **1,210** | **12,605** | **30,326** | **34,630** | | **78,771** | |

## 37. Maturity analysis (continued)

The following table shows the undiscounted cash flows as of 31 December 2014 of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Notional value of cash flow USD'000 | Carrying value USD'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances from banks and other financial institutions | 22,650 | - | - | - | - | **22,650** | **22,501** |
| Amount payables under repurchase agreements | 95,537 | 89,430 | 24,379 | 4,930 | - | **214,276** | **213,602** |
| Current accounts and deposits from customers | 47,257 | 3,109 | 975 | - | - | **51,341** | **51,251** |
| Debt securities issued | 6 | 132 | 746 | 620 | - | **1,504** | **1,472** |
| Subordinated debt | - | - | 196 | 11,433 | - | **11,629** | **9,470** |
| Other liabilities | - | - | - | - | 462 | **462** | **462** |
| **Derivative financial instruments** | | | | | | | |
| Inflow | (72,280) | - | - | - | - | **(72,280)** | **-** |
| Outflow | 72,317 | - | - | - | - | **72,317** | **37** |
| **Total liabilities** | **165,487** | **92,671** | **26,296** | **16,983** | **462** | **301,899** | **298,795** |
| **Credit related commitments** | **6,787** | **17,651** | **50,829** | **48,947** | **-** | **124,214** | **-** |

## 37. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2015.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 1,809 | - | - | - | - | **1,809** |
| Due from the Central Bank of Russia | 27,533 | - | - | - | - | **27,533** |
| Placements with banks and other financial institutions | 73,732 | - | - | - | - | **73,732** |
| Derivative financial instruments | 121 | - | - | - | - | **121** |
| Loans to customers | 20,108 | 13,063 | 70,889 | 44,161 | - | **148,221** |
| Financial assets available-for-sale | 3,620 | 2,942 | 1,565 | 11,593 | - | **19,720** |
| Other assets | 121 | - | - | - | - | **121** |
| Property and equipment | - | - | - | - | 213 | **213** |
| Intangible assets | - | - | - | - | 576 | **576** |
| Current tax assets | 326 | - | - | - | - | **326** |
| **Total Assets** | **127,370** | **16,005** | **72,454** | **55,754** | **789** | **272,372** |
| **Liabilities** | | | | | | |
| Derivative financial instruments | - | - | - | - | - | **-** |
| Amount payables under repurchase agreements | - | - | - | - | - | **-** |
| Deposits and balances from banks and other financial institutions | 112,484 | 71,194 | - | - | - | **183,678** |
| Current accounts and deposits from customers | 24,201 | 2,302 | 586 | - | - | **27,089** |
| Debt securities issued | - | 521 | 2,734 | 354 | - | **3,609** |
| Subordinated debt | - | - | - | 8,894 | - | **8,894** |
| Other liabilities | 218 | - | - | - | - | **218** |
| Deferred tax liabilities | - | - | - | 1,229 | - | **1,229** |
| **Total Liabilities** | **136,903** | **74,017** | **3,320** | **10,477** | **-** | **224,717** |
| **Net position as at 31 December 2015** | **(9,533)** | **(58,012)** | **69,134** | **45,277** | **789** | **47,655** |
| Net position as at 31 December 2014 | (49,368) | (59,672) | 44,094 | 106,792 | 1,052 | 42,898 |

## 37. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2014.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Unidentified maturity USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 2,271 | - | - | - | - | **2,271** |
| Due from the Central Bank of Russia | 7,331 | - | - | - | - | **7,331** |
| Placements with banks and other financial institutions | 94,993 | - | - | - | - | **94,993** |
| Loans to customers | 10,829 | 33,393 | 60,538 | 79,869 | - | **184,629** |
| Financial assets available-for-sale | - | - | 9,846 | 40,442 | - | **50,288** |
| Other assets | 210 | - | - | - | - | **210** |
| Property and equipment | - | - | - | - | 302 | **302** |
| Intangible assets | - | - | - | - | 750 | **750** |
| Deferred tax assets | - | - | - | 1,440 | - | **1,440** |
| **Total Assets** | **115,634** | **33,393** | **70,384** | **121,751** | **1,052** | **342,214** |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 37 | - | - | - | - | **37** |
| Amount payables under repurchase agreements | 95,074 | 89,307 | 24,329 | 4,892 | - | **213,602** |
| Deposits and balances from banks and other financial institutions | 22,501 | - | - | - | - | **22,501** |
| Current accounts and deposits from customers | 47,174 | 3,106 | 971 | - | - | **51,251** |
| Debt securities issued | 6 | 131 | 738 | 597 | - | **1,472** |
| Subordinated debt | - | - | - | 9,470 | - | **9,470** |
| Other liabilities | 462 | - | - | - | - | **462** |
| Current tax liabilities | 521 | - | - | - | - | **521** |
| **Total Liabilities** | **165,775** | **92,544** | **26,038** | **14,959** | **-** | **299,316** |
| **Net position as at 31 December 2014** | **(50,141)** | **(59,151)** | **44,346** | **106,792** | **1,052** | **42,898** |
| Net position as at 31 December 2013 | (21,836) | (70,336) | 40,278 | 122,971 | 1,395 | 72,472 |

## 38. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2015:

| | Roubles USD'000 | USD USD'000 | EUR USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 176 | 957 | 676 | - | **1,809** |
| Due from the Central Bank of Russia | 27,533 | - | - | - | **27,533** |
| Placements with banks and other financial institutions | 15,533 | 1,136 | 57,058 | 5 | **73,732** |
| Derivative financial instruments | - | 121 | - | - | **121** |
| Loans to customers | 26,770 | 58,087 | 63,364 | - | **148,221** |
| Financial instruments available-for-sale | 19,720 | - | - | - | **19,720** |
| Other assets | 121 | - | - | - | **121** |
| Property and equipment | 213 | - | - | - | **213** |
| Intangibles assets | 576 | - | - | - | **576** |
| Current tax assets | 326 | - | - | - | **326** |
| **Total Assets** | **90,968** | **60,301** | **121,098** | **5** | **272,372** |
| | | | | | |
| **Liabilities** | | | | | |
| Amount payables under repurchase agreements | - | - | - | - | **-** |
| Deposits and balances from banks and other financial institutions | 7,060 | 61,680 | 114,938 | - | **183,678** |
| Amount payables under repurchase agreements | - | - | - | - | **-** |
| Current accounts and deposits from customers | 17,628 | 8,532 | 929 | - | **27,089** |
| Debt securities issued | 348 | 3,261 | - | - | **3,609** |
| Subordinated debt | - | 3,700 | 5,194 | - | **8,894** |
| Other liabilities | 218 | - | - | - | **218** |
| Deferred tax liabilities | 1,229 | - | - | - | **1,229** |
| **Total Liabilities** | **26,483** | **77,173** | **121,061** | **-** | **224,717** |
| | | | | | |
| **Net on balance sheet position as of 31 December 2015** | **64,485** | **(16,872)** | **37** | **5** | **47,655** |
| **Net off balance sheet position as of 31 December 2015** | **(17,082)** | **17,082** | **-** | **-** | **-** |
| **Net (short) / long position as of 31 December 2015** | **47,403** | **210** | **37** | **5** | **47,655** |
| Net (short) / long position as of 31 December 2014 | 42,343 | 273 | 262 | 20 | 42,898 |

# 38. Currency analysis (continued)

The following table shows the currency structure of assets and liabilities at 31 December 2014:

| | Roubles USD'000 | USD USD'000 | EUR USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 445 | 1,107 | 719 | - | **2,271** |
| Due from the Central Bank of Russia | 7,331 | - | - | - | **7,331** |
| Placements with banks and other financial institutions | 3,637 | 5,987 | 85,348 | 21 | **94,993** |
| Loans to customers | 35,516 | 81,876 | 67,237 | - | **184,629** |
| Financial instruments available-for-sale | 50,288 | - | - | - | **50,288** |
| Other assets | 210 | - | - | - | **210** |
| Property and equipment | 302 | - | - | - | **302** |
| Intangibles assets | 750 | - | - | - | **750** |
| Deferred tax assets | 1,440 | - | - | - | **1,440** |
| **Total Assets** | **99,919** | **88,970** | **153,304** | **21** | **342,214** |
| **Liabilities** | | | | | |
| Derivative financial instruments | - | - | 37 | - | **37** |
| Deposits and balances from banks and other financial institutions | 9,920 | 70 | 203,612 | - | **213,602** |
| Amount payables under repurchase agreements | 22,501 | - | - | - | **22,501** |
| Current accounts and deposits from customers | 23,255 | 12,091 | 15,904 | 1 | **51,251** |
| Debt securities issued | 917 | 555 | - | - | **1,472** |
| Subordinated debt | - | 3,700 | 5,770 | - | **9,470** |
| Other liabilities | 462 | - | - | - | **462** |
| Current tax liabilities | 521 | - | - | - | **521** |
| **Total Liabilities** | **57,576** | **16,416** | **225,323** | **1** | **299,316** |
| **Net on balance sheet position as of 31 December 2014** | **42,343** | **72,554** | **(72,019)** | **20** | **42,898** |
| **Net off balance sheet position as of 31 December 2014** | **-** | **(72,281)** | **72,281** | **-** | **-** |
| **Net (short) / long position as of 31 December 2014** | **42,343** | **273** | **262** | **20** | **42,898** |
| Net (short) / long position as of 31 December 2013 | 71,880 | 74 | 518 | - | 72,472 |

# 39 Geographical analysis

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The following table shows the geographical concentration of assets and liabilities at 31 December 2015:

| | Russia USD'000 | OECD USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | 1,809 | - | - | **1,809** |
| Due from the Central Bank of Russia | 27,533 | - | - | **27,533** |
| Placements with banks and other financial institutions | 6,016 | 67,716 | - | **73,732** |
| Derivative financial instruments | 121 | - | - | **121** |
| Loans to customers | 141,983 | 6,238 | - | **148,221** |
| Financial instruments available-for-sale | 19,720 | - | - | **19,720** |
| Other assets | 121 | - | - | **121** |
| Property and equipment | 213 | - | - | **213** |
| Intangibles assets | 576 | - | - | **576** - |
| Current tax assets | 326 | - | - | **326** |
| **Total Assets** | **198,418** | **73,954** | **-** | **272,372** |
| | | | | |
| **Liabilities** | | | | |
| Deposits and balances from banks and other financial institutions | - | 183,678 | - | **183,678** |
| Current accounts and deposits from customers | 22,132 | 4,929 | 28 | **27,089** |
| Debt securities issued | 3,577 | 32 | - | **3,609** |
| Subordinated debt | - | 8,894 | - | **8,894** |
| Other liabilities | 218 | - | - | **218** |
| Deferred tax liabilities | 1,229 | - | - | **1,229** - |
| **Total Liabilities** | **27,156** | **197,533** | **28** | **224,717** |
| | | | | |
| **Net on balance sheet position as of 31 December 2015** | **171,262** | **(123,579)** | **(28)** | **47,655** |

# 39. Geographical analysis (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2014:

| | Russia USD'000 | OECD USD'000 | Other USD'000 | Total USD'000 | |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 2,271 | - | - | **2,271** | |
| Due from the Central Bank of Russia | 7,331 | - | - | **7,331** | |
| Placements with banks and other financial institutions | 1,545 | 93,448 | - | **94,993** | |
| Loans to customers | 148,531 | 36,098 | - | **184,629** | |
| Financial instruments available-for-sale | 50,288 | - | - | **50,288** | |
| Other assets | 210 | - | - | **210** | |
| Property and equipment | 302 | - | - | **302** | |
| Intangibles assets | 750 | - | - | **750** | - |
| Deferred tax assets | 1,440 | - | - | **1440** | |
| **Total Assets** | **212,668** | **129,546** | **-** | **342,214** | |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | 37 | - | - | **37** | |
| Amount payables under repurchase agreements financial | 22,501 | - | - | **22,501** | |
| Deposits and balances from banks and other financial institutions | 2,959 | 210,643 | - | **213,602** | |
| Current accounts and deposits from customers | 41,933 | 9,275 | 43 | **51,251** | |
| Debt securities issued | 1,424 | 48 | - | **1,472** | |
| Subordinated debt | - | 9,470 | - | **9,470** | |
| Other liabilities | 462 | - | - | **462** | |
| Current tax liabilities | 521 | - | - | **521** | - |
| **Total Liabilities** | **69,837** | **229,436** | **43** | **299,316** | |
| | | | | | |
| **Net on balance sheet position as of 31 December 2014** | **142,831** | **(99,890)** | **(43)** | **42,898** | |

## 40. Events after the reporting date

There have been no non – adjusting events after the balance sheet date that require disclosure.