

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OTHER THAN AS PERMITTED BY REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")

IMPORTANT: You must read the following before continuing. The following applies to the attached prospectus ("**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described herein (the "**Securities**"). You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for you only and you agree you will not forward this electronic transmission or the attached Prospectus to any other person. Any forwarding, distribution or reproduction of this Prospectus in whole or in part is unauthorised. Failure to comply with the following requirements may result in a violation of the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the applicable laws of other jurisdictions.

The Prospectus has been prepared solely in connection with the offering to certain institutional and professional investors of the Securities.

There are restrictions on the offer and sale of the Securities and the circulation of documents relating thereto, in certain jurisdictions, including the United States, the United Kingdom, Ireland, the Russian Federation, Hong Kong and Singapore and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Securities and distribution of this Prospectus, see "*Subscription and Sale*".

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the Securities, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that you are outside the United States and are not a U.S. person (as defined in Regulation S under the Securities Act) and/or are not acting for the account or benefit of U.S. person (as defined in Regulation S under the Securities Act), the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia, and that you consent to delivery of such Prospectus by electronic transmission.

The Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). In the United Kingdom, the Prospectus is directed only at Relevant Persons and must not be

acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

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

None of TFB Finance Designated Activity Company (the "**Issuer**"), Public Joint Stock Company "Tatfondbank" ("**TFB**" or the "**Borrower**"), SC Lowy Financial (HK) Ltd, Merdeka Capital Limited, SIB (Cyprus) Limited and B&N Bank (Public Joint-Stock Company) (the "**Joint Lead Managers**") or their respective representatives or affiliates makes any representation regarding the legality of an investment by any offeree or purchaser under any investment or similar laws. Prospective investors should consult their own advisers as to the legal, tax, business, financial and other aspects of any purchase of the Securities. You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This Prospectus is being sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of the Issuer, the Borrower, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached document distributed to you in electronic format and the hard copy version available to you on request.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



U.S.\$ 60,000,000 8.5 per cent. Loan Participation Notes due 2019
issued by, but with limited recourse to,
TFB FINANCE DESIGNATED ACTIVITY COMPANY
for the sole purpose of financing a loan to
PUBLIC JOINT STOCK COMPANY "TATFONDBANK"
(a public joint stock company organised under the laws of the Russian Federation)
Issue Price: 100 per cent.

TFB Finance Designated Activity Company, a designated activity company incorporated under the laws of Ireland (the "**Issuer**"), is issuing an aggregate principal amount of U.S.\$ 60,000,000 8.5 per cent. Loan Participation Notes due 2019 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to Public Joint Stock Company "Tatfondbank", a public joint stock company organised under the laws of the Russian Federation ("**TFB**" or the "**Borrower**"), pursuant to a loan agreement dated 7 November 2016 (the "**Loan Agreement**") between the Issuer and the Borrower.

Pursuant to the trust deed (the "**Trust Deed**") relating to the Notes between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**"), the Issuer will provide certain security for all payment obligations in respect of the Notes for the benefit of the Noteholders, including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and an assignment to the Trustee of the Issuer's rights and interests under the Loan Agreement, other than in respect of the charged property and certain reserved rights (as more fully described in "*Description of the Transaction and the Security*"). Interest on the Loan will be payable at a rate of 8.5 per annum semi-annually in arrear with the interest payment dates falling on 12 May and 12 November in each year, commencing on 12 May 2017, provided that for the avoidance of doubt, no interest payment will be due on 12 November 2016, provided that the Issuer receives such payment in full, the Notes will bear interest from, and including, 9 November 2016 payable at the same rate and on the same dates as interest payment dates set in respect of the Loan Agreement (provided that where the relevant date is not a business day, on the next succeeding business day).

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

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

The Notes are expected to be rated 'B3' by Moody's Investors Service Ltd. ("**Moody's**") and 'B' by Standard & Poor's Financial Services LLC ("**S&P**"). Ratings included in this Prospectus have been or are expected to be issued by Moody's, S&P and Fitch Ratings Limited ("**Fitch**"), each of which is established in the European Economic Area (the "**EEA**") and registered under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"). As such, Moody's, S&P and Fitch are included in the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the European Securities and Markets Authority website <http://www.esma.europa.eu>. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market, Main Securities Market ("**Main Securities Market**"). This Prospectus constitutes a "prospectus" for the purpose of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") (which implement the Prospectus Directive in Ireland). Reference in this Prospectus to being "listed" (and all date references) shall mean that such Notes have been admitted to trading on the regulated market of the Irish Stock Exchange.

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

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

The Notes will be offered and sold to non-U.S. Persons (as defined in Regulation S) outside the United States in an "offshore transaction" in the minimum denomination of U.S.\$200,000 and higher integral multiples of U.S.\$1,000. The Notes will initially be represented by interests in a global note certificate in registered form (the "**Global Note Certificate**"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), and registered in the name of a nominee, on or about 9 November 2016 (the "**Issue Date**"). Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through records maintained by Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. Individual note certificates in registered form ("**Definitive Certificates**") will only be available in certain limited circumstances as described herein.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

SC Lowy

Merdeka Capital

Joint Bookrunners and Joint Lead Managers

B&N Bank

Sberbank CIB

The date of this Prospectus is 7 November 2016.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each of the Issuer (with respect to the information relating to it, the Loan and the Notes only) and the Borrower accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Borrower (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition, the Borrower, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Borrower and its consolidated subsidiaries taken as a whole (collectively, the "**Group**"), the Loan and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Borrower and the Group are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Borrower and/or the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Borrower and/or the Group, the Loan or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Borrower to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the immediately preceding sentence and below, the Borrower accepts responsibility for the information contained in this Prospectus. This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Borrower, the Joint Lead Managers (as defined in "*Subscription and Sale*") or the Trustee to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Borrower, the Joint Lead Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

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

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by the Joint Lead Managers or on its behalf in connection with the Issuer, the Borrower or the offering of the Notes pursuant to this Prospectus. Each Joint Lead Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement. None of the Issuer, the Borrower, the Joint Lead Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective investor must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, the Borrower, the Joint Lead Managers and the Trustee are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative

uncertainties. No representation or warranty is made as to whether, or the extent to which, the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

In connection with the issue of the Notes, SC Lowy Financial (HK) Ltd (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

The contents of the Borrower's website do not form any part of this Prospectus. The language of this Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

No representation or warranty, express or implied, is made by SC Lowy Financial (HK) Ltd, Merdeka Capital Limited, SIB (Cyprus) Limited and B&N Bank (Public Joint-Stock Company) (the "**Joint Lead Managers**"), the Trustee or any of its or their affiliates or any person acting on their behalf as to the accuracy or completeness of the information set forth in this Prospectus. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Lead Managers, the Trustee or any of its or their affiliates or any person acting on their behalf in connection with its investigation of the accuracy or completeness of such information or its investment decision. Each person contemplating making an investment in the Notes from time to time must make its own investigation and analysis of the creditworthiness of the Borrower and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

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

This document has been filed with and approved by the Central Bank of Ireland. The Prospectus approved by the Central Bank of Ireland will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

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

NOTICE TO UNITED KINGDOM RESIDENTS

This document is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire

such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

NOTICE TO RUSSIAN INVESTORS

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

CONTENTS

Clause	Page
RISK FACTORS	1
FORWARD-LOOKING STATEMENTS	58
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	60
ENFORCEABILITY OF JUDGMENTS IN THE RUSSIAN FEDERATION	63
TFB OVERVIEW	65
DESCRIPTION OF THE TRANSACTION.....	73
OVERVIEW OF THE OFFERING	75
USE OF PROCEEDS	79
INCORPORATION BY REFERENCE	80
CAPITALISATION OF THE GROUP	81
SELECTED CONSOLIDATED FINANCIAL INFORMATION	83
BUSINESS	88
ASSETS, LIABILITIES AND RISK MANAGEMENT	116
MANAGEMENT	137
SHAREHOLDERS.....	144
RELATED PARTIES TRANSACTIONS	146
FINANCIAL REVIEW	152
THE ISSUER	177
TERMS AND CONDITIONS OF THE NOTES	180
THE LOAN AGREEMENT	196
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	196
TAX CONSIDERATIONS	236
SUBSCRIPTION AND SALE	250
TRANSFER RESTRICTIONS	253
GENERAL INFORMATION	254
APPENDIX A – OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION	256
APPENDIX B – REPUBLIC OF TATARSTAN	299
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors may lose the value of their entire investment or part of it and should carefully review this Prospectus in its entirety. In particular, investors should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. Any of the following risks, individually or together, could adversely affect the Issuer's, TFB's and TFB's and/or the Group's business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline and investors could lose all or part of their investment.

Prospective investors should note that the risks described below are not the only risks the TFB and Group face. These are the risks the Issuer, TFB and the Group currently consider to be material. There may be additional risks that the Issuer, TFB and the Group currently consider to be immaterial or of which they are currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Relating to TFB's Business and Industry

The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition

Slowdown of global and Russian economies

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints during the most recent global financial crisis, which started in the U.S. in 2007 (the "**global financial crisis**"). In response to the global financial crisis, many of the largest countries in the world, including Russia, the United States and several European countries, implemented significant rescue packages, which included, among other things: the recapitalisation of banks through the state purchase of common and preferred equity securities; the state guarantee of certain forms of bank debt; the purchase of distressed assets from banks and other financial institutions by the state; quantitative easing and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. While the effect of the global financial crisis has continued, to some degree, in present, generally, global economies have to a certain extent gradually recovered from the downturn caused by the global financial crisis which resulted in tapering the previously implemented rescue packages (for instance, tapering some of quantitative easing policies by the U.S. in 2013 and 2014).

On 23 June 2016, a referendum was held on the United Kingdom's membership in the European Union (the "**EU**"), which resulted in a public vote in favour of the United Kingdom leaving the EU ("**Brexit**"). The outcome of the vote has caused considerable uncertainty, which is likely to remain in the near future, as to the political implementation of that mandate, the nature and timing of such an exit, the risk of contagion in other member states and whether and to what extent this could continue to negatively impact the European markets. Any similar events affecting the integrity of the Eurozone or EU generally or any further economic downturns, could have an adverse effect on the financial stability both in the EU and globally and could impact the investor sentiment towards EU financial markets and international debt markets, generally. The latter could also be negatively impacted by growing concerns over levels of fiscal deficits, requirements for support of the banking

system, increasing sovereign debt levels of the EU member states, speculations regarding the stability of the Eurozone and the potential impact of these factors on individual EU member state economies.

If volatility of the capital and credit markets increases as a result of a new financial crisis, TFB's ability to tap such markets will deteriorate, and the TFB may face increased interest rates on its new and existing borrowings and incur other costs associated with debt financings. In addition, TFB's ability to tap the capital markets or borrow money may become restricted at a time when the TFB would like, or need, to raise capital, which could have an adverse impact on its ability to react to changing economic and business conditions, as well as on its ability to fund operations and capital expenditures in the future. Therefore, if global or European economic conditions deteriorate, the resulting tightening of the credit markets and volatility could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial conditions or prospects.

Substantially all of TFB's assets and customers are located in, or have businesses related to, Russia. As a result, TFB is significantly affected by the state of the Russian economy, which is, to a large extent, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials.

Following a period of stabilisation after the global economic crisis, the Russian economy's growth has been gradually slowing down which eventually resulted in the decrease of the gross domestic product ("**GDP**") by 3.7 per cent. in 2015. According to the Federal State Statistics Service of the Russian Federation ("**Rosstat**"), GDP growth in real terms fell from 1.3 per cent. in 2013 to 0.6 per cent. in 2014. In 2015, Russia's GDP showed a decrease of 3.7 per cent. and, according to the World Bank, is likely to continue to contract in 2016, although to a slightly lower extent. The decreases in growth rates from 2011 to 2014 and decline in Russia's GDP in 2015 were mainly attributable to sharp decrease in oil prices, decreased volumes of investment in the Russian economy, significant capital outflow, the monetary policy of the Central Bank of Russia (the "**CBR**") aimed at inflation suppression and the increase in production costs. The negative developments affecting the Russian economy in 2014 and 2015 have been aggravated by the impact of the political and economic crisis in Ukraine and the introduction of sanctions by Western countries in relation to certain Russian and former Ukrainian officials, politicians, businessmen and legal entities. The significant escalation of the armed conflict in Eastern Ukraine between the Ukrainian army and local militia throughout most of 2014 has destabilised the region and put further pressure on international relations between Russia and Western countries, including the United States and the EU, and has also led to the expansion of sanction programmes in respect of Russian legal entities and individuals (see "*—Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or an expansion of the Group's dealings with any parties subject to sanctions could have a material adverse effect on the TFB's and/or the Group's financial condition*").

The price of Brent crude oil decreased from U.S.\$112.36 as at 30 June 2014 to U.S.\$57.54 as at 31 December 2014. Following an increase to U.S.\$67.58 as at 6 May 2015, the price of Brent crude oil continued to decrease to U.S.\$37.57 as at 31 December 2015. As at 30 September 2016, the price of Brent crude oil was U.S.\$ 49.05 and continues to be volatile and unstable. As a result of the above factors, the Rouble depreciated sharply against the U.S. dollar and other foreign currencies during 2014 and reached RUB 67.79 per U.S.\$ 1.00 as at 18 December 2014. The Rouble then appreciated slightly and amounted to RUB 52.03 per U.S.\$ 1.00 as at 27 December 2014 but continued to decline throughout January 2015 which

resulted in the RUB/USD exchange rate amounting to RUB 69.66 per U.S.\$ 1.00 as at 3 February 2015, representing a depreciation of 98.0 per cent. as compared to RUB 35.18 per U.S.\$ 1.00 as at 1 February 2014. The Rouble predominantly depreciated throughout 2015 which resulted in the exchange rate reaching a record maximum of RUB 83.59 per U.S.\$ 1.00 on 22 January 2016. While the Rouble showed a subsequent recovery with the RUB/USD exchange rate being RUB 62.20 per U.S.\$ 1.00 as at 12 October 2016, it is likely to remain volatile and vulnerable to economic downturns in the near future. These and other events have resulted and could result in further economic uncertainty, decrease of foreign investment into and increased capital outflows from Russia and emerging markets generally as well as persistent volatility in global and regional financial markets.

Furthermore, there is currently significant political instability in the region due to the political and economic crisis in Ukraine and Crimea's accession to the Russian Federation, which resulted in the introduction of sanctions by Western countries. See "*The current crisis in Ukraine and the reaction of the U.S., the EU and certain other countries to Russia's actions in connection with Crimea creates significant political and economic uncertainty which may adversely impact TFB's and/or the Group's financial condition*"). These and other events have resulted and could result in further economic uncertainty, decrease of foreign investment into and increased capital outflows from Russia and emerging markets generally as well as persistent volatility in global and regional financial markets.

The Russian Federation has experienced a significant decline in debt and equity securities prices. There were periodic suspensions of Russian stock market trading, extreme volatility in the Russian equity and financial markets and sharp declines in the share prices of Russian financial institutions and companies, in particular in 2008 and early 2009, the second half of 2011 as well as more recently throughout 2014, 2015 and the first half of 2016.

A combination of these factors has in the past resulted, and may in the future result, in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability, including those of the Group. No assurance can be given that a further downturn will not occur, or that further state support measures will not be required, or that any state support measures will be sufficient to restore stability in the global banking sector and financial markets in the short-term or beyond. Any future downturn could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

Dislocation of global and Russian banking sectors

The volatility and market disruption in the global banking sector continued, to a certain extent, throughout 2011 and 2012 affecting the liquidity of banks around the world, causing the reduction in financing available to financial institutions and provoking persisting doubts about the overall stability of the global economy, monetary system, banking sector and economic conditions in certain countries, including certain EU countries and Russia.

Disruption in the global credit markets has had a negative impact on investor confidence and has negatively affected the interbank markets and debt issuance in terms of volume, maturity and credit spreads. Among the sectors of the global credit markets experiencing particular difficulty due to the impact of the global financial crisis are those associated with sub-prime mortgage-backed securities, asset-backed securities, collateralised debt obligations, leveraged finance and complex structured securities. Although European markets generally showed recovery during 2013-2015 and the first half of 2016, no assurance can be given that a further

economic downturn or financial crisis will not occur, or that measures to support the banking system, if taken to overcome a crisis, will be sufficient to restore stability in the global banking sector and financial markets in the short term or beyond. If global or European economic conditions deteriorate, as a result of a further escalation of the European sovereign debt crisis or otherwise, or a "double dip" recession occurs, the resulting tightening of the credit markets and volatility could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects.

The majority of the Group's profit is generated in Russia, which means that the Group is particularly exposed to economic conditions in Russia, including the state of the Russian banking sector. In October 2011, Moody's changed its outlook on the Russian banking sector from "stable" to "negative" which has remained negative ever since, including the most recent confirmation announced in October 2015. The factors affecting this confirmation included sharp increases in provisioning expenses in the first half of 2014 and increase in problem loans by up to 9.5 per cent. of total loans over the next 12-18 months due to the tighter credit conditions as compared to 2013. Moody's also noted other problems inherent to Russian banking system, such as high single-borrower and related-party exposures continuing to entail asset quality risks, increased funding costs and lower post-provision profitability, which has already deteriorated during the first half of 2014.

On 16 January 2015, Fitch downgraded the long-term foreign currency Issuer Default Ratings (the "**IDRs**") and debt ratings of 30 Russian and Russian-owned financial institutions by one notch following the downgrade of Russia's sovereign ratings and revision of the country ceiling one week earlier. In addition, Moody's downgraded Russia's sovereign debt rating to Baa3/Prime 3 from Baa2/Prime 2 and S&P's lowered its long- and short-term foreign currency sovereign credit ratings on the Russian Federation to 'BB+/B' from 'BBB-/A-3' in January 2015. In February 2015, Moody's downgraded Russia's sovereign debt rating from Baa3/Prime-3 to Ba1/Not Prime (negative outlook). This rating action concluded the review for downgrade that commenced in January 2015. While Moody's changed the outlook for Russia's sovereign debt rating from negative to stable in December 2015, in March 2016, the rating agency reported that it may reconsider Russia's sovereign debt rating towards further downgrade. On 22 April 2016, Moody's confirmed Russia's sovereign debt rating at Ba1 and assigned a negative rating outlook. Furthermore, in February 2016, Moody's, S&P and Fitch revised the forecast of Russian economy development expecting the deterioration as a result of the anticipated GDP decrease. In addition, on 15 April 2016, Fitch affirmed Russia's long-term foreign and local currency IDRs at 'BBB-' with a negative outlook with the country ceiling affirmed at 'BBB-' and the short-term foreign currency IDR at 'F3'. Fitch also affirmed the issue ratings on Russia's senior unsecured foreign and local currency bonds at 'BBB-'. Although, in September - October 2016, S&P and Fitch revised the outlook on Russia's sovereign credit rating from "negative" to "stable", there is no guarantee that Russia's sovereign credit ratings will not be subject to subsequent negative rating actions by the relevant rating agencies or that corresponding rating upgrade will be made by Moody's.

Following the sovereign rating downgrade in 2015, Moody's downgraded senior unsecured, subordinated debt and deposit and issuer ratings of seven Russian financial institutions – Sberbank, Bank VTB JSC, Gazprombank, Russian Agricultural Bank, Agency for Housing Mortgage Lending OJSC (AHML), Vnesheconombank and Alfa-Bank. In line with the outlook on sovereign rating, the outlook on the long-term ratings of these financial institutions is negative. In the same rating action Moody's also lowered the standalone bank financial strength ratings of Sberbank, Bank VTB JSC, Gazprombank and Alfa-Bank due to

the expectation that the prolonged recessionary environment in Russia will produce a very challenging operating environment for the country's leading banks and thereby impact their financial fundamentals. In the course of a subsequent review, Moody's has taken negative rating actions on 10 large Russian private banks (including, Home Credit & Finance Bank, Russian Standard Bank, Tinkoff Credit Systems and Khanty-Mansiysk Bank Otkritie PJSC) reflecting the deterioration in the operating environment in Russia (Ba1 negative), which negatively impacts the banks' financial fundamentals. In addition, in February 2015, S&P lowered credit ratings of more than 20 Russian banks and financial institutions. The rating agency referred to the deterioration of Russian economy as a primary factor affecting the downgrade. In December 2015, however, Moody's changed the outlook to stable from negative on the long-term debt and deposit ratings of AO Raiffeisenbank and Bank Saint-Petersburg PJSC. In April 2016, Moody's long-term ratings of many Russian banks (including Sberbank, Bank VTB JSC, Alfa-Bank, Vnesheconombank, Agency for Housing Mortgage Lending JSC, Gazprombank, Bank of Moscow, AO Raiffeisenbank, Metallinvestbank JSCB) were confirmed following earlier confirmation of Russia's sovereign debt rating, concluding the review for possible downgrade initiated in March 2016. On 2 February 2016, Fitch affirmed the long-term foreign currency IDRs of AO Raiffeisenbank, AO UniCredit Bank, AO Citibank, Rosbank, Rusfinance Bank and DeltaCredit Bank at 'BBB-' with negative outlooks. On 28 June 2016, Fitch affirmed the long-term foreign currency IDRs of Alfa-Bank, Credit Bank of Moscow and Bank Saint-Petersburg PJSC at 'BB+' and 'BB' with negative outlooks, and 'BB-' with positive outlook, respectively. According to Moody's credit outlook published on 21 March 2016, economic recession in Russia will continue to negatively affect the operating environment for Russian banks. In particular, Russian banks' asset quality and capital adequacy are expected to be most adversely influenced by the recession with problem loans of rated banks rising by 3-5 per cent. as compared to year-end 2015.

There can be no assurance that TFB or the Russian Federation will be able to maintain their current credit ratings and any deterioration in the general economic or political environment or TFB's financial condition could lead to further downgrades.

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

Furthermore, recently, a number of Russian banks have experienced other difficulties, including failure to make sufficient loss provisions, that have caused them to become insolvent and have their licenses revoked or to recognise large loan impairments that required steps to replenish their capital. The CBR revoked banking licenses from a large number of banks, which substantially undermined the sustainability and reliability of the sector. The

most remarkable steps were the revocation of Master Bank's banking licence (Master Bank was a major Moscow-based bank and the 41st largest bank in Russia as of 1 October 2013 by customer accounts according to an Interfax rating) and subsequent revocation of licences of a number of smaller banks, including Bank Russian Credit in July 2015 and financial group Life, which included Probusinessbank, in August 2015. Furthermore, in January 2016, the CBR revoked the banking license of the Foreign Economic Industrial Bank (Vnesheprombank), which was a major Moscow-based bank and the 37th largest bank in Russia by customer accounts as of 1 January 2016 according to an Interfax rating. Intensified withdrawal of banking licences as a result of inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering regulations or due to other reasons could result in lower investor confidence in Russian banking system generally and investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of TFB, which could be materially adverse to TFB's and/or the Group's business, financial condition, results of operations and prospects, as well as the price of the Notes.

Impact on the TFB's and the Group's Business Operations

Uncertainty in the international financial markets, and further tightening in credit conditions and contraction of the Russian economy and other markets in which the Group operates could adversely impact TFB's and/or the Group's business and operating results, should the market conditions continue to worsen, due to:

- decreases in the Group's net interest income;
- decreases in the demand for TFB's credit products as a result of higher interest rates;
- significant increase in non-performing loans, which are loans that are overdue by more than 90 days ("**non-performing loans**") and loan provision charges, loan losses and write-offs;
- decreases in the business activity of Russian companies and the credit-worthiness of Russian companies and individuals;
- increases in borrowing costs and reduced, or zero, access to the capital markets due to unfavourable market conditions;
- currency volatility;
- liquidity constraints;
- outflows of deposits from accounts;
- significant declines in the market values of securities held in the Group's trading and available for sale portfolios; and
- deterioration of capital adequacy.

TFB believes that its funding sources, its credit standing and its liquidity and risk management policies allow it to meet its liquidity needs. Nevertheless, a potential decrease in

TFB's ability to access the domestic interbank loan market and/or the capital markets, whether resulting from worsening market conditions, disruptions in the financial markets, recent geopolitical instability or otherwise, or maturity mismatches between the Group's assets and liabilities, may, together or separately, have a material adverse effect on the business, financial condition or results of operations of TFB and/or the Group as well as the value of the Notes.

Impact on Liquidity

The disruptions in the Russian financial markets that resulted from the global economic crisis have had a severe impact on liquidity in Russia, together with the availability of credit and the terms and cost of funding. The slowdown of the growth of the Russian economy since 2014 and the tensions between Russia and the Western countries relating to Ukraine and Crimea have, to a certain extent, resulted in similar liquidity constraints. The heavy reliance of Russian banks on their customer deposit base and CBR funding as a source of funding makes them vulnerable to liquidity risk in environments with limited liquidity, and that are prone to disruption. In addition, limited-liquidity environments generally result in higher costs of funding, which often result in a decrease in net interest margins¹.

During the global economic crisis, Russian banks, generally, experienced a sharp reduction in their ability to obtain funding, both from the interbank and short-term funding markets, as well as from the longer-term capital markets and through bank finance instruments. The lack of supply resulted in significant increases in the costs of funding across these markets. A number of financial institutions suffered severe liquidity constraints and, in certain cases, their majority shareholders had to sell their shares to other Russian institutions. The Russian securitisation market also remained largely inaccessible during the global economic crisis.

Although starting from 2015 the liquidity position in the Russian banking sector has somewhat improved, this improvement is primarily attributable to the maintenance of the loan portfolio of the Russian credit institutions at approximately the same level. Hence, there is no guarantee that, should the demand for the loan products grow, TFB will be able to obtain funding sufficient to fund its operations at appropriate price or rate, or otherwise be able to continue to run and develop its business as planned, which may adversely impact TFB's and/or the Group's business, operating results, financial condition and prospects. In addition, the CBR introduced new capital adequacy requirements in 2013 and certain capital adequacy surplus ratios, including those to be complied with by systemically important banks, in 2016. Further, with effect from 1 July 2016, the CBR has increased certain mandatory reserves ratios, which require banks to make larger reserves in order to manage their foreign currency liability portfolio (see also "*Appendix A – Overview of the Banking Sector and Banking Regulation in the Russian Federation*"). A failure of TFB to make larger reserves than previously in light of the new requirements, could materially and adversely affect TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

¹ This measure is an APM. Net interest margin is calculated as the net interest income before provision for impairment losses of interest bearing assets divided by average balance of such interest bearing assets and, in relation to rates for the year and half year periods, by annualisation through multiplication by 2 in case of the half year results for the period ending 30 June 2016. The average balances for such interest bearing assets are calculated as the average of the beginning and end of period balances, as appropriate.

Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or an expansion of the Group's dealings with any parties subject to sanctions could have a material adverse effect on TFB's and/or the Group's financial condition

The U.S. government has imposed economic sanctions against a number of countries/territories and targeted individuals and entities, including Specially Designated Nationals ("**SDNs**"), entities identified on a new Sectoral Sanctions Identifications List (the "**SSI List**"), and entities owned 50% or more directly or indirectly by the foregoing (collectively, "**Sanctions Targets**"). These sanctions are primarily administered by the U.S. Department of the Treasury, Office of Foreign Assets Control ("**OFAC**"). OFAC's sanctions regulations impose prohibitions or restrictions on U.S. persons, and in some cases U.S.-owned or controlled entities, engaging in transactions with OFAC Sanctions Targets, as well as transactions by non-U.S. persons with OFAC Sanctions Targets involving U.S. persons, U.S. territory or the U.S. financial system.

OFAC has imposed sanctions in response to the situation in Ukraine under the authority of several U.S. Executive Orders. Executive Orders 13660 and 13661 issued on 6 March 2014 and 16 March 2014, respectively, authorized the imposition of sanctions on individuals and entities that the U.S. government determined to be contributing to the situation in Ukraine, including Russian officials and persons operating in the arms or related sectors in the Russian Federation. Under these Executive Orders OFAC has designated as SDNs certain individuals and entities, including a number of former Ukrainian governmental officials, Russian governmental officials, Russian businessmen, Russian banks, Russian companies including arms and defense companies, non-Russian companies holding assets in Russia, and Lugansk and Donetsk People's Republics. Further, under the authority of Executive Order 13662, issued on 20 March 2014, OFAC has broad authority to designate as SDNs persons who operate in certain sectors of Russia's economy to be determined by the U.S. government, such as financial services, energy, metals and mining, engineering, defense and related material.

As a result of these designations, it is unlawful for any U.S. person (meaning any U.S. citizen or permanent resident alien wherever located, any U.S.-incorporated entities (including their foreign branches), or any person or entity in the U.S.) to do business with a person designated as an SDN under Executive Orders 13660 or 13661, absent an applicable OFAC license of exemption. In addition, all property and assets of SDNs in the U.S. or under the possession or control of a U.S. person are subject to blocking. This blocking also extends to any property that later comes into the United States or into the possession or control of a U.S. person, including any foreign branches of U.S. persons. Pursuant to guidance from OFAC, if one or more SDNs own, separately or in the aggregate, directly or indirectly, 50% or more of an entity, that entity is considered blocked regardless of whether the entity is separately listed as an SDN, thereby requiring U.S. persons to block property of such an entity.

OFAC has not to date issued SDN designations under Executive Order 13662. However, on 16 July 2014, OFAC used the authority of Executive Order 13662 to create the SSI List. The SSI listing does not impose blocking sanctions on the listed entities but rather only restricts certain specified dealings by U.S. persons or involving the U.S. financial system with these entities, as well as any entities owned 50% or more by them directly or indirectly. The SSI List imposes sanctions on entities listed under the SSI's four directives.

Under SSI List Directive 1 (as published on 16 July 2014), OFAC prohibited U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for Gazprombank and Vnesheconombank, their property, or

their interests in property. Directive 2 (as published on 16 July 2014) prohibited U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for Rosneft and Novatek, their property, or their interests in property.

On 29 July 2014, OFAC expanded the SSI List sanctions against the Russian financial sector by adding major Russian banks, VTB, Bank of Moscow and Rosselkhozbank to the SSI List under Directive 1. The United States also announced a suspension of U.S. government financing of exports to, and development projects in, Russia.

On 12 September 2014, OFAC amended Directive 1 to prohibit U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity or new equity for Gazprombank, Vnesheconombank, VTB, Bank of Moscow, Rosselkhozbank and Sberbank, their property, or their interests in property. In addition, Directive 2 was amended to impose sanctions on Transneft and Gazprom Neft in addition to Rosneft and Novatek. OFAC also introduced two new SSI List directives. SSI List Directive 3 prohibits U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity of persons determined to be subject to Directive 3, their property, or their interests in property. As of the date of this Prospectus, the sole entity designated pursuant to Directive 3 was State Corporation Rostec. SSI List Directive 4 prohibits U.S. persons from providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory, and that involve any person determined to be subject to Directive 4, its property, or its interests in property. OFAC designated Gazprom, Gazprom Neft, Rosneft, Lukoil and Surgutneftegaz under Directive 4. The SSI List was further expanded on 30 July 2015.

On 19 December 2014, the U.S. also imposed comprehensive sanctions against Crimea under Executive Order 13685. Under this Executive Order, U.S. persons are prohibited from engaging in or facilitating: (i) new investment in Crimea, (ii) the import of goods, services or technology from Crimea to the United States, directly or indirectly, (iii) the export, re-export, sale or supply, directly or indirectly, of any goods, services or technology to Crimea, and (iv) facilitating commerce by others with Crimea. The sanctions also apply to non-U.S. persons in respect of their dealings with U.S. persons or through the U.S. financial system.

The U.S. also has imposed export licensing restrictions related to the situation in Ukraine. Effective 6 August 2014, the U.S. Department of Commerce's Bureau of Industry and Security ("**BIS**") amended the Export Administration Regulations ("**EAR**") by, among other things, imposing significant new restrictions on exports, reexports, and incountry transfers of certain U.S. origin goods, software, technology, and data for use in Russia's oil and gas sector related to deepwater, Arctic offshore, and shale exploration and production operations. BIS has also added a number of Russian and Ukrainian entities to its Entity List. These designations generally mean that a BIS license is required for the transfer of items subject to the EAR to the listed company, with BIS operating under a presumption of denial of the license. On 12 September 2014, BIS added five Russian defense companies and five Russian energy companies to its Entity List. The Entity List restriction for the five energy companies imposes a license requirement for the export, reexport or foreign transfer of items subject to the EAR to those companies when the exporter, reexporter or transferor knows those items will be used directly or indirectly in exploration for, or production from, deepwater, Arctic offshore, or shale projects in Russia. License applications for such transactions will be

reviewed with a presumption of denial when for use directly or indirectly for exploration or production from deepwater, Arctic offshore, or shale projects in Russia that have the potential to produce oil.

The EU has also introduced sanctions in response to the situation in Ukraine. The EU's sanctions are directly applicable in the member states of the EU, including Ireland, where the Issuer is registered.

In March 2014, the EU introduced sanctions which impose an asset freeze on, and prohibit funds and economic resources being made available directly or indirectly to or for the benefit of listed persons and entities determined to be contributing to the situation in Ukraine ("**EU Sanctions Targets**"). The lists of EU Sanctions Targets have been supplemented or amended from time to time. EU Sanctions Targets include, amongst others, individuals and entities identified as responsible for or supporting actions or policies which undermine or threaten the territorial integrity, sovereignty and independence of Ukraine and include certain former Ukrainian government officials, Russian government officials, military commanders, Russian businessmen and Russian companies, the Lugansk and Donetsk People's Republics and officials of those.

On 31 July 2014, the EU approved Council Regulation (EU) No 833/2014, which was subsequently amended by Council Regulations (EU) Nos 960 and 1290 in September and December 2014 respectively (collectively, "**Regulation 833**"). Regulation 833 places restrictions on the sale, supply, transfer or export, directly or indirectly, to Russia or for use in Russia, of items suited to defined oil exploration and production projects in Russia. Restrictions are also imposed on the associated provision of technical assistance, brokering services, financing and financial assistance. Regulation 833 also prohibits the provision of certain services necessary for defined categories of oil exploration and production projects in Russia. Regulation 833 also applies restrictions on access to the capital markets by prohibiting EU persons from directly or indirectly making or being part of any arrangement to make new loans or credits with a maturity exceeding 30 days to listed entities, and other defined categories of non-listed entities that are affiliated with them, after 12 September 2014. The listed entities are Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank (the "**Listed Banks**"). EU persons are also prohibited from directly or indirectly purchasing, selling, providing investment services for or assistance in the issuance of, or otherwise dealing with transferable securities and money-market instruments (i) with a maturity exceeding 90 days, issued after 1 August 2014 to 12 September 2014, or with a maturity exceeding 30 days, issued after 12 September 2014, by a Listed Bank (or defined entities affiliated with them); or with a maturity exceeding 30 days, issued after 12 September 2014 by OPK Oboronprom, United Aircraft Corporation, Uralvagonzavod, Rosneft, Transneft or Gazprom Neft, or defined categories of non-listed entities that are affiliated with them. Regulation 833 further prohibits the sale, supply, transfer or export, directly or indirectly, of listed dual-use goods and technology, whether or not originating in the EU, to JSC Sirius, OJSC Stankoinstrument, OAO JSC Chemcomposite, JSC Kalashnikov, JSC Tula Arms Plant, NKP Tehnologii Maschinostrojenija, OAO Wysokototschnye Kompleksi, OAO Almaz Antey or OAO NPO Bazalt. Regulation 833 also prohibits all sale, supply, transfer or export, directly or indirectly, of dual-use goods and technology to Russian or for use in Russia, if the items are or may be intended for military use or a military end-user. Some restrictions in Regulation 833 are subject to exceptions, including in relation to the execution of certain pre-existing contractual obligations, or have the possibility of authorisation following application to relevant competent authorities. With effect from 23 June 2015, the

sanctions listed in Regulation 833 were extended by Decision of the Council of the EU until 31 January 2016.

In June 2014, by Council Regulation (EU) No 692/2014, the EU also introduced sanctions directed at certain categories of trade with Crimea or Sevastopol, and these sanctions have been expanded to include broader categories of trade and investment, in Council Regulations (EU) No. 825/2014 and No. 1351/2014 (collectively, "**Regulation 692**"). The restrictions and prohibitions in Regulation 692 include prohibitions on the sale, supply, transfer or export, directly or indirectly, of certain listed equipment and technology to or for use in Crimea, which equipment and technology is related to the creation, acquisition or development of infrastructure in the following sectors: transport; telecommunications; energy; the exploitation of oil, gas and mineral reserves in Crimea or Sevastopol. Regulation 692 also includes restrictions on financing related to the creation, acquisition or development of infrastructure in those areas, and the acquisition of participations in entities engaged in those sectors.

EU sanctions apply within the territory of the EU, including its airspace; on board any aircraft or any vessel under the jurisdiction of an EU member state; to any person inside or outside the territory of the EU who is a national of a member state; to any legal person, entity or body, inside or outside the territory of the EU, which is incorporated or constituted under the law of a member state; and to any legal, person, entity or body in respect of any business done in whole or in part within the EU.

Australia, Canada, Norway, Switzerland, Japan and certain other countries have also imposed sanctions on various Russian individuals and companies that, depending on particular jurisdiction, include any or all of the following: travel bans, asset freezes, restrictions on access to capital markets and prohibitions on exports of various equipment and technology. In addition, Ukraine has adopted the Law "On Sanctions" which envisages a possibility of imposing various restrictions and prohibitions against various domestic and foreign individuals, legal entities and foreign states in response to, among others, actual or potential threats to national interests, national security, sovereignty and territorial integrity of Ukraine. Potential restrictive measures include asset freezes, trade restrictions, suspension or prohibition of transit of resources through Ukraine, and other restrictions.

The Issuer is under the jurisdiction of the EU and as such is subject to applicable EU laws, including the abovementioned sanctions. However, TFB itself is a Russian bank and is not a U.S. or EU person and the OFAC and EU sanctions regimes, generally, do not apply to it, to the extent TFB does not engage U.S. or EU persons in its transactions entered into in violation of the OFAC or EU sanctions regulations. Nevertheless, the provision of any material assistance or financial, technological or other support to sanctioned persons by TFB may have certain commercial and business consequences as set out below.

None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU, in violation of such sanctions. To date, the imposed sanctions had insignificant impact on TFB's and/or the Group's business and financial position as the Group's dealings with persons designated pursuant to the OFAC and EU sanctions programmes are limited. No entity within the Group has been designated as subject to either U.S. or EU sanctions by OFAC or the Council of the EU. However, there can be no assurance that compliance issues under applicable OFAC and EU regulations, measures or similar laws and regulations will not arise with respect to any member of the Group or its personnel. For example, OFAC and EU sanctions programmes that target

Russian persons is a relatively new phenomenon and the application of these sanctions remains subject to interpretations and implementation by various regulators and market participants which, although not expected, may deviate from TFB's interpretation and application of these sanctions to itself and its counterparties.

Non-compliance with applicable OFAC and EU regulations by the Group or its member companies could result in, among other things, debarment from the ability to contract with the U.S. or EU governments or their agencies, liability of the Group and/or its personnel, the imposition of significant fines and negative publicity and reputational damage. In addition, should the Group's dealings with sanctioned counterparties become material, the Group's ability to transact with U.S. or EU persons could be affected, even if such dealings would comply with applicable law. OFAC also would have authority to designate the Group or its member companies as Specially Designated Nationals if OFAC determines that they have provided material assistance to a Specially Designated National. As a result of the above, the ability of the Group or its member companies to raise funding from international financial institutions or the international capital markets may be restricted.

In addition, should either OFAC or the Council of the EU continue to expand their respective sanctions programmes further to include the TFB's additional existing or future clients, suppliers or other counterparties, including through further broadening of the SSIL or otherwise, such an expansion could result in greater financial difficulties for such persons, the Group's dealings with designated persons could become material as a result of the expansion of the sanctions programmes or the suspension or potential curtailment of business operations between TFB and/or the Group and the designated persons could occur. Should such events arise the Russian Government may continue to provide support to the Russian economy, including the Russian financial services sector, and the Russian Government has put in place initiatives with the view of limiting some of the effects of OFAC and EU sanctions, such as the establishment of a national payment system. Furthermore, on the basis of existing Russian legislation, TFB does not expect that the Russian state authorities will impose any restrictions or other negative regulatory consequences on Russian banks that have or will become subject to OFAC or EU sanctions.

Nonetheless, the introduction of additional large-scale sanctions on Russian companies or sectors of the Russian economy, such as the Russian banking and financial services sector including through broadening of the SSIL or otherwise, may further negatively affect the Russian economy and investment climate and lead to further restrictions of access to capital in Russia, acceleration of capital flight from Russia, weakening of the Rouble and further deterioration of the Russian financial markets. Any of the foregoing, or the designation of any member of the Group or its owners as the subject of U.S. or EU sanctions, or imposition of sanctions on TFB's and/or the Group in some other manner, could result in a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

Although so far the sanctions had limited impact on TFB's and/or the Group's business and financial position and TFB has no reason to believe that any member of the Group may be specifically targeted by OFAC or EU sanctions, the introduction of any large-scale sanctions on the Group or additional sanctions on the Russian banking and financial services sector, including through further broadening of the SSIL or otherwise, may negatively affect the business of the Borrower and other Russian banks in a number of ways. For example, even though Russian banks should be able to continue their operations and provide banking services in Russia, they may be forced to discontinue their dealings with U.S. and EU

persons, including financial institutions, Visa and MasterCard financial corporations and rating agencies. In addition, Russian banks may not be able to use international settlement, clearing, payment and information exchange systems, which would materially affect ordinary banking services in Russian and any cross-border trade. The ability of Russian banks to transact in U.S. Dollars or Euro with their counterparties may be limited, Russian banks may not be able to raise funding or otherwise transact in the international markets, particularly those involving investors from the U.S. and the EU, and funds or other assets of Russian banks held by U.S. and EU financial institutions may be blocked. As a result, whilst TFB would consider and, to the extent possible, take measures available to it to discharge its obligations under the Loan, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the expansion of sanctions imposed on the Russian banking and financial services sector, including possible restrictions on transfer of funds and transacting generally, could negatively affect, among other things, the ability of Noteholders to receive payments under the Notes. Further, should any member of the Group become subject to OFAC or EU related sanctions, there may be significant restrictions or bans imposed on dealings with the relevant member of the Group which may also restrict or prohibit dealings with the Issuer, the Agents (as defined below), the Trustee or the Notes, including their sale, purchase or transfer, which could negatively affect the Noteholders. See also "*An expansion of OFAC or EU sanctions programmes could adversely impact the trading market for the Notes*".

The OFAC and EU sanctions programs that target Russian persons are relatively recent and the application of these sanctions remains subject to interpretation and implementation by various regulators and market participants which may deviate from TFB's interpretation and application of these sanctions to TFB and its counterparties, and no assurance can be given that the potential impact of such dealings or of such varying interpretations would not have a material adverse effect on TFB's and/or the Group's business, financial condition and results of operations or the legal positions of the Noteholders and/or the value of the Notes. Should the manner in which the sanctions are applied or interpreted change, the ability of Russian companies to transact with U.S. or EU persons could be affected, and, as such, Russian companies may be unable to make scheduled payments of principal and interest on their borrowings.

TFB could be negatively affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

TFB routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers, commercial banks and other institutional clients, resulting in a significant counterparty credit exposure. This counterparty risk is heightened as a result of financial institutional failures and nationalisations. In recent years, the CBR has actively monitored the Russian banking sector and revoked licenses of numerous small and medium-sized Russian banks with the aim of removing fraudulent, failing or undercapitalised financial institutions from the sector and making it more robust and stable in the event of any potential systemic shocks. Although TFB monitors its counterparties on a constant basis, TFB has been negatively affected by recent failures of LLC Vnesheprombank and JSC Unifin, which resulted in recognition by the Group of losses from investments available for sale and increase in the allowance for impairment, and will continue to be exposed to the risk of loss if any counterparty financial institutions fail, their

licenses are revoked or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions or counterparties which could materially and adversely affect TFB's ability to raise interbank or other funding, TFB's and/or the Group's business, results of operations, financial condition and prospects.

Instability of the Russian banking system could have a material adverse effect on TFB's and/or the Group's business, financial condition and results of operations

Historically, the Russian banking sector has experienced several downturns and constraints. The most recent one, started in 2013, resulted in a number of Russian banks being unable to make sufficient loss provisions, becoming insolvent and having their licenses revoked or recognising large loan impairments that required steps to replenish their capital. The revocation of banking licences resulted in constraints in the Russian interbank market, which had a negative impact on the liquidity of certain banks. This revocation, combined with market concerns, including concerns regarding the stability of the Russian banking system and the ability of the State Corporation Deposit Insurance Agency (the "**DIA**") to service any further pay-outs to insured depositors should any similar bank collapses occur, led to sudden withdrawals of deposits by both retail and corporate customers from certain banks, which, in turn, further reduced liquidity of a number of Russian banks.

Liquidity constraints which emerged in Russian banking sector in 2013 continued throughout 2014 and 2015 and remained, to a certain extent, in the first half of 2016. Liquidity shortage was aggravated by the access to the EU and US capital markets being shut down to a number of Russian banks as a result of sanctions imposed by the EU and US in response to the events in Ukraine. The second half of 2014 was marked by the continuous depreciation of the Rouble against foreign currencies, especially Euro and US Dollar, with the most acute stage of depreciation falling on January 2016 (See "*—Devaluation of the Rouble against the U.S. dollar and other currencies may have a material adverse effect on TFB and/or the Group*"). In response to these events and with a view to strengthen the national currency and provide support to Russian banking system, the CBR increased the base rate from 10.5 per cent. to 17 per cent., on 16 December 2014, which, however, did not bring the desired immediate effect and failed to combat the Rouble depreciation and liquidity shortage. Although starting from 2015 the liquidity position in the Russian banking sector has somewhat improved, this improvement is primarily attributable to the maintenance of the loan portfolio of the Russian credit institutions at approximately the same level. Hence, there is no guarantee that, should the demand for the loan products grow, the liquidity level will be sufficient to satisfy it.

In 2015 and the first half of 2016, the CBR implemented a number of measures to support liquidity of the Russian banking sector, in particular, gradually lowered the CBR base rate to 10 per cent. which remained at the same level as of the date of this Prospectus, retained low interest rate lending programmes provided to small and medium enterprises, expanded the list of securities included in the CBR Lombard List, a list of high-quality securities that are accepted by the CBR as collateral required to receive Lombard loans (short-term loans provided by the CBR to credit institutions to meet their temporary borrowing requirements secured by the pledge of securities). Moreover, in 2015, 27 Russian banks selected by the DIA received an aggregate of RUB 830 billion as additional support from the state in the form of Federal loan bonds ("**OFZ**") in the amount equal to 25 per cent. of their capital (own funds) as of 1 January 2015 being transferred to such banks on a *pro rata* basis. However, no

assurance can be given that these measures would be sufficient to bring the expected positive economic effect and increase capitalisation across the Russian banking sector.

Furthermore, the Russian banking system has been experiencing severe internal perturbation due to regulation tightening exercised by the CBR. More stringent regulations or interpretations imposed by the CBR could lead to determinations of inadequate capital, other regulation violations and the insolvency of some banks. The CBR has also commenced a "cleanup" campaign aimed at financial rehabilitation of the banking system. In implementation of this campaign the CBR revoked banking licenses from a large number of banks, which substantially undermined the sustainability and reliability of the sector (See "*The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition—Dislocation of global and Russian banking sectors*"). These steps have raised some concerns about the stability of the Russian banking system and the ability of the DIA to service any further pay-outs to insured depositors should any similar bank collapses occur in the near future. It also adversely affected liquidity on the domestic market.

Such intensified withdrawal of banking licences as a result of inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering regulations, liquidity shortage, large deposit withdrawals or any other reasons could result in lower investor confidence in Russian banking system generally and investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of TFB, which could have a material adverse effect on TFB's and/or the Group's liquidity, business, financial condition, results of operations and prospects.

TFB may not be successful in implementing its strategy

TFB's ability to execute its strategy depends on a variety of factors, some of which are outside of TFB's control, such as global economic conditions, interest rates and demand for certain products. TFB cannot be certain that its strategy will be a success or whether it will meet its aims and objectives, and any failure to achieve its strategic goals may have a material adverse effect on its business, financial condition, results of operations and prospects.

According to TFB's existing strategy, its key objectives are to maintain strong business profile, enhance its SME and retail segments, maintain adequate levels of liquidity and increase efficiency and reducing operational costs. To achieve this goal, the TFB seeks to strengthen business profile, increase retail banking, grow SME banking, diversify funding base, improve its capital position and increase operational efficiency.

The implementation of TFB's strategy exposes it to a number of risks and challenges, including, among others, the following:

- the expansion of TFB's business may be constrained by the capital position of TFB, should TFB fail to improve its capital position;
- new business activities may experience less growth and/or generate smaller profits than anticipated, and there can be no assurance that new business activities will become profitable at the level currently expected to be achieved by TFB or at all;

- TFB's competitors may have greater experience in, and resources for, the business activities TFB wishes to commence or expand. In particular, TFB may not be able to develop its business, including through attracting clients from its competitors, as successfully as planned in the regions outside of the Republic of Tatarstan;
- TFB may fail to identify and offer attractive new products and services in a timely fashion, putting it at a disadvantage as regards its competitors;
- new business activities may require greater marketing and compliance costs than are currently required;
- TFB is likely to be exposed to a greater credit risk while expanding SME and retail banking operations which may lead to increased allowance for loan impairment; and
- TFB will need to enhance the capability of its information technology and risk management systems to support a broader range of activities and increased retail client base.

Historically, TFB's operations focused in the Republic of Tatarstan where it has developed strong working relationships with leading companies, as well as establishing a distribution network to maintain close relationships with its corporate and retail customers. In light of its strategy to maintain its presence outside of the Republic of Tatarstan, TFB may be exposed to additional risks in these regions due to less sophisticated knowledge and experience in terms of origination, risk management and loan collection than in the Republic of Tatarstan.

The growth of TFB's business requires the continued development of TFB's financial, IT and information management control systems, the continued training of sales representatives, management and other personnel, the supervision and maintenance of its client services operations and the recruitment of additional employees. TFB's expansion plans entail additional investment and increased operating costs. Failure to manage any such risks could have a material adverse effect on the TFB's and/or Group's business, financial condition, results of operations and prospects.

TFB may not be able to successfully integrate entities or assets it has acquired or may acquire in the future

TFB's and the Group's financial position and results of operations depend, to a certain extent, on a number of acquisitions TFB has completed in the past (see "*Business – History*") and the ones that may be made in the future. Most recently, in March 2016, the Group acquired control over AO Bank "Sovetsky", a Russian bank providing traditional banking services to corporate and retail clients, which was consolidated in the Group's financial statements for the six months ended 30 June 2016. There can be no assurance that the Group will be able to fully or effectively integrate entities or assets it has acquired or which it may acquire in the future. TFB strives to achieve revenue and cost synergies, operating efficiencies and business growth opportunities, as well as other benefits from any acquisition. The integration of any such acquisition into the Group, however, may be complex and expensive and may present a number of challenges for management. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because the assumptions upon which TFB determined to proceed with any such acquisition may prove to be incorrect. It is the policy of TFB to complete extensive diligence in relation to any potential acquisition, but there can be no guarantee that such diligence has

been or would be sufficient to uncover all material issues or that the quality of assets acquired will not negatively impact upon TFB's overall loan portfolio. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or those achieved are materially different from those that were expected to be achieved prior to the acquisition, then this could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects.

TFB faces increased levels of competition in the Russian banking industry

The Russian market for banking and financial services is highly competitive and TFB faces competition from both domestic and foreign banks and banking groups in each of the segments and regions where it operates. In particular, the Russian banking sector is dominated to a material extent by large state-owned banks, such as Sberbank and VTB, which have an advantage because of their size and support from the Russian Government. See "*Appendix A— Overview of the Banking Sector and Banking Regulation in the Russian Federation—Structure of the Russian Banking Sector—State-Owned or State-Controlled Banks*". Furthermore, as the Russian market for banking and financial services matures, it has become increasingly competitive as a result of competition from both local banks and subsidiaries of foreign financial institutions. See "*Appendix A— Overview of the Banking Sector and Banking Regulation in the Russian Federation —Structure of the Russian Banking Sector—Privately Owned Russian Banks*" and "*—Foreign Owned Banks.*" This competition has adversely affected net interest margins and funding costs, among other areas. Price competition for deposits may result in TFB offering higher interest rates for new deposits, and increased competition for high quality client loans may force TFB to offer lower interest rates on loans to clients. In addition, the ongoing consolidation in and further tightening of the Russian banking industry is expected to further enhance competition. TFB's ability to compete effectively will depend on its ability to adapt quickly to industry trends. If TFB fails to compete effectively with either local competitors, including large state-owned banks, or subsidiaries of foreign financial institutions in the corporate, retail, small business or investment banking segments, or if interest rate margins are compressed further, this could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

The competitive landscape in the Russian banking sector has changed after the global economic crisis. While a number of privately-owned banks have scaled down their operations, banks which are directly or indirectly owned by or affiliated with the Russian Federation, such as Sberbank, VTB, Russian Agricultural Bank and Gazprombank, have continued to strengthen their positions in the Russian banking sector. State-owned banks and banks affiliated with the Russian Federation have been able to entrench and consolidate their positions partly because they receive significantly larger amounts of state funding than privately-owned banks and state funding in Russia generally tends to be cheaper than that which is available from the private sector. If state-owned or affiliated banks continue to benefit from greater levels of state funding and credit support than privately-owned banks, including TFB, in the future this could adversely affect TFB's ability to compete with such banks, which could have a material adverse effect on the business, financial condition, results of operations and prospects of TFB and/or the Group.

Due to the large number of banks in Russia, TFB faces competition in all regions and locations in which it operates and in which it intends to expand its banking operations. TFB believes that, in terms of both corporate and retail lending, its primary competitors in the Republic of Tatarstan are Sberbank of Russia and AK BARS. In retail segment TFB also

competes with VTB24, Home Credit and Finance Bank, Russian Standard Bank, Tinkoff Credit Systems and Bank Vostochnyi. In corporate banking, TFB's competitors also include Alfa-Bank, Ural Bank for Reconstruction and Development, SMP Bank, Promsvyazbank, Russian Agricultural Bank and Gazprombank.

TFB faces competition in its corporate (including SME) and retail banking operations. As other banks and financial institutions launch competitive finance programmes or joint ventures in Russia and as existing competitors' programmes develop further, TFB's share in these markets may decline. TFB faces intense price competition from its principal competitors in the corporate (including SME) and retail markets.

In corporate (including SME) and retail banking markets, some of TFB's competitors have a broader geographic reach, more branches, and greater capital resources than TFB and are supported by the state or regional authorities. The relatively moderate size of TFB's balance sheet (See "*Financial Review*" for financial condition and results of operations of the Group for the periods under review), as compared to major Russian banks, might impede TFB's ability to compete successfully with larger rivals now or in the future, in particular in light of TFB's strategy to increase retail and SME banking operations and to expand its presence in certain Russian regions, which may have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations or prospects. In addition, TFB may fail to accurately assess competition when entering new markets. TFB expects increased competition in deposit-taking and lending activities in corporate (including SME) and retail markets, which could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

The quality of the TFB's loan portfolio may deteriorate as a result of adverse economic conditions

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

In addition, changes in economic conditions may result in further deterioration in the value of collateral securing loans (See "*TFB may experience a decline in the value or liquidity of the collateral securing loans provided*") and increase the risk of loss in the event of borrower default. Any changes in the credit quality of TFB's borrowers and counterparties resulting from systemic risks in the Russian and global financial systems, could reduce the value of the Group's assets, and increase write-offs and allowances for loan impairment.

Allowance for impairment is a major component of the Group's income statement. As such, changes in the allowance for impairment have affected the Group's results of operations in the past and are likely to continue to affect the Group's results of operations in the future.

The Group's has recently experienced downturns in its position with respect to allowance for impairment. For the year ended 31 December 2015, the Group's allowance for impairment increased by 99.1 per cent. to RUB 6,793 million from RUB 3,412 million for the year ended 31 December 2014. This increase is primarily attributable to a RUB 3,000 million, or 85.0

per cent., increase in allowance for impairment of loans to customers which was in turn due to the overall growth of the Group's loan portfolio and general worsening of the economic situation in Russia.

The percentage of the Group's allowance for loan impairment to the Group's gross loans to customers decreased to 13.1 per cent. as at 31 December 2015 from 13.3 per cent. as at 31 December 2014.

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

The majority of TFB's business is located in, or related to, the Republic of Tatarstan

As at 31 December 2015, the Group's net loans to customers related to the Republic of Tatarstan, amounted to RUB 85,930.6 million, or 70.9 per cent. of the Group's net loan portfolio as compared to RUB 70,665.7 million, or 73.1 per cent. of the Group's net loan portfolio, as at 31 December 2014. As at 31 December 2015, the Group's customer accounts from customers located within the Republic of Tatarstan amounted to RUB 74,225.8 million, or 66.3 per cent. of the Group's customer accounts, as compared to RUB 58,484.0 million, or 64.9 per cent. of the Group's customer accounts, as at 31 December 2014. The majority of TFB's offices and client base are located in the Republic of Tatarstan.

As a result of TFB's business being concentrated in, or owing to customers from, the Republic of Tatarstan, TFB's and/or the Group's results could be significantly affected by a downturn in the economy of the Republic of Tatarstan, which is concentrated in the oil, petrochemical and agricultural industries. In the event of such a downturn, the Group could suffer a decrease in generated income, which could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

TFB may be unable to adequately assess the credit risk of customers and counterparties

TFB is exposed to credit risk related to its customers and counterparties. TFB's and/or the Group's business, results of operations, financial condition and prospects depend on an accurate assessment of the creditworthiness of its customers and counterparties, the adequacy of its provisioning levels and the continued management and monitoring of the risks of its loan portfolio.

The financial performance of Russian companies is generally more variable and their credit risk is, on average, less predictable than those of similar companies doing business in more mature markets and economies, which makes assessment more difficult. In addition, an accurate assessment of credit risk may be difficult due to the fact that good quality financial and credit information may not be available. Therefore, notwithstanding TFB's credit risk evaluation procedures, TFB may be unable to accurately assess the current financial condition of existing or potential customers or counterparties and to accurately determine the ability of its borrowers to repay the relevant loans or other types of credit or of its counterparties to meet their financial obligations, which may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects.

Furthermore, the retail lending market in Russia is relatively undeveloped as compared to Western countries and limited resources are available to Russian banks to ascertain the credit history of individual borrowers. Although legislation regulating credit bureaus has been in place since 2004, credit bureaus are not as widely developed in the Russian Federation as in Western countries and limited information on the borrowers is available from them. Therefore, it is particularly difficult to accurately assess the credit risk of individuals, and TFB may be unable to evaluate correctly the current financial condition of each prospective individual borrower.

The Group's total loans and advances to customers (before provision for loan impairment) were RUB 146,350.7 million as at 30 June 2016, RUB 139,577.1 million as at 31 December 2015 and RUB 111,621.7 million as at 31 December 2014. The Group's loan portfolio requires continued and improved monitoring by management of credit quality and the adequacy of the Group's provisioning levels. See "*Assets, Liabilities and Risk Management*". TFB is subject to risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties.

Failure to accurately assess the credit risk of potential borrowers or acceptance of a higher degree of credit risk in the course of current lending operations may result in a deterioration of the loan portfolio and a corresponding increase in loan impairments, which may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB may experience a decline in the value or liquidity of the collateral securing loans provided

A substantial proportion of the Group's gross loan portfolio is secured by collateral such as deposits with TFB, real estate, traded securities, motor vehicles, inventories and equipment. Downturns in various industries and markets and the general deterioration of economic conditions in Russia may result in declines in the value of collateral securing the Group's secured loans to levels below the amounts of the outstanding principal and accrued interest and other amounts on the loans. The reduced collateral values may not be sufficient to cover uncollectible amounts on TFB's secured loans, which may require TFB to reclassify the degree of risk on the loans and establish additional provisions for loan impairment.

Russian law provides for certain formalities and procedures to be followed when enforcing collateral, many of which are complex and time-consuming (See "*Appendix A— Overview of the Banking Sector and Banking Regulation in the Russian Federation –Developments in Regulation of Pledge and Pledge Enforcement*"). There can be no assurance that TFB will always be able to comply with these formalities and procedures and ultimately enforce its rights against the collateral supporting its loans. In addition, any failure to adequately assess the value of collateral pledged against loans to corporate customers and individuals, enforce its rights to collateral and/or recover the expected value of collateral in the case of foreclosure may expose TFB to loan losses, which may adversely affect TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

The increase in the proportion of retail loans and small business loans in the Group's loan portfolio may result in an increase in the Group's non-performing loans

The Group's loan portfolio consists of loans to corporate clients, small and medium enterprises ("SMEs") and loans to individuals. As at 30 June 2016, the proportion of non-

performing loans² in the Group's overall loan portfolio was 2.95 per cent, compared to 3.35 per cent. as at 31 December 2015. As of 30 June 2016, the Group's non-performing loan ratios for corporate loans, small business loans and loans to individuals were 0.90 per cent., 0.76 per cent. and 1.29 per cent., respectively, compared to 0.50 per cent., 0.55 per cent. and 2.30 per cent., respectively, as at 31 December 2015. Retail loans and small business loans are expected to increase as a result of TFB's strategy of growing such businesses. TFB may be unable to accurately assess credit risk with respect to these categories of clients, which may result in an increase in the proportion of non-performing loans in the Group's loan portfolio, affect its non-performing loan ratios, increase loan provision charges, loan losses and write-offs, which may adversely affect TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

The Group is subject to interest rate risks and has experienced decreases in net interest margin in recent years

The Group is generally dependent on the interest rate environment and has experienced decreases in its net interest margin³ in recent years. For the year ended 31 December 2015, the Group's net interest margin decreased to 0.92 per cent. from 2.92 per cent. for the year ended 31 December 2014. See "*Financial Review – Results of Operations for the Years Ended 31 December 2015 and 2014–Net Interest Income and Net Interest Margin*". Any further reduction in the Group's net interest margin, whether as a result of reduced yields on its interest-bearing assets, increased rates on its interest-bearing liabilities, changes in the mix of its interest-bearing assets and/or liabilities, or other factors, could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

The Group may be unable to reduce the industry and borrower concentrations in its loan portfolio

The Group's loan portfolio is relatively highly concentrated in a number of industries and borrowers which it may be unable to reduce. As at 30 June 2016, the trade, finance, real estate (together with construction and manufacturing) and agriculture (together with the food industry) industries accounted for 28.1 per cent., 19.6 per cent., 17.5 per cent. and 8.9 per cent. of the Group's gross loans to customers, respectively, as compared to 30.9 per cent., 20.9 per cent., 16.4 per cent. and 8.3 per cent. of the Group's gross loans to customers, respectively, as at 31 December 2015. As at 30 June 2016, the Group had 80 borrowers with aggregate amount of their loans (for each borrower above RUB 500 million) totalling RUB 95,347.7 million, representing 65 per cent. of the Group's gross loans to customers, as compared to 74 borrowers with aggregate amount of their loans (for each borrower above RUB 500 million) totalling RUB 89,540.7 million, representing 64 per cent. of the Group's gross loans to customers, as at 31 December 2015.

The Group's financial condition is sensitive to the downturns in the sectors in which it has high industry concentrations or its largest borrowers operate, as well as to adverse changes in such borrowers' business, financial condition, results of operation and prospects. Although

² Non-performing loans to customers, or NPLs, are loans that are overdue by more than 90 days.

³ This measure is an APM. Net interest margin is calculated as the net interest income before provision for impairment losses of interest bearing assets divided by average interest-earning assets for the relevant period. The average balances for interest-earning assets are calculated as the average of the beginning and end of period balances, as appropriate.

TFB continues to take measures to diversify the Group's loan portfolio by expanding SME and retail banking operations, which would help to reduce the risks of such high industry concentration in the Group's loan portfolio, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its loan portfolio in the future. TFB's failure to reduce the current level of concentration in the Group's loan portfolio may have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

TFB is sensitive to fluctuations in the market values of the securities in its securities portfolio and fluctuations of the land value

TFB is exposed to the movement in market values in its securities portfolio, including the risk of unfavourable market price changes relative to its long or short positions, a decline in the market liquidity of securities, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that instruments TFB chooses to hedge certain positions do not track the market value of those positions. TFB trades various financial instruments and other assets on behalf of its clients and for its own account. Financial instruments at fair value through profit or loss represented 15.7 per cent. of the Group's total assets as at 30 June 2016, compared to 15.6 per cent. as at 31 December 2015. Investments available for sale represented 3.4 per cent. of the Group's total assets as at 30 June 2016, compared to 5.4 per cent. as at 31 December 2015. The Group recognised a RUB 398.1 million loss on its financial instruments at fair value through profit or loss for the six months ended 30 June 2016, compared to RUB 758.9 million gain for the six months ended 30 June 2015. The Group recognised a RUB 108.7 million loss on its financial instruments at fair value through profit or loss in 2015, compared to a RUB 50.2 million gain in 2014. The Group recognised a RUB 240.6 million loss on its available for sale securities portfolio for the six months ended 30 June 2016, compared to RUB 20.0 million loss for the six months ended 30 June 2015. The Group recognised a RUB 673.5 million gain on its available for sale securities portfolio in 2015, compared to a RUB 18.9 million loss in 2014. If prices of securities held by the Group decrease significantly or the market becomes more volatile, the Group may not make profits on, or incur substantial losses from, these securities, and suffer losses which could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

Furthermore, since the value of certain of the Group's assets, for example, mutual funds and equity securities, is determined by reference to the value of the land plots, the Group is exposed to negative fluctuations of their value. If the prices of the land plots decrease significantly or the market becomes more volatile, the Group may not make profits on, or incur substantial losses from, such assets, and suffer losses which could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

TFB is exposed to a potential outflow of deposits and is reliant on the availability of wholesale funding

Customer accounts and client deposits represent a significant proportion of TFB's funding. As at 30 June 2016, customer accounts amounted to 69.9 per cent. of the Group's total liabilities, compared to 63.8 per cent. as at 31 December 2015 and 60.0 per cent. as at 31 December 2014. Withdrawals of deposits by individuals, who are entitled under Russian legislation to withdraw such deposits at any time, or legal entities, which may be permitted to withdraw such deposits depending on the applicable contractual provisions, could lead to liquidity gaps

for which TFB would have to compensate by other means. In addition, TFB may be unable to obtain alternate funding at a rate contemplated in its asset and liability repricing projections, or at all, which may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects. As at 30 June 2016 and 31 December 2015 and 2014, approximately 96.3 per cent., 97.5 per cent. and 97.4 per cent. of the Group's customer accounts, respectively, had the remaining contractual maturity of less than one year, with approximately 62.1 per cent. and 67.0 per cent. and 52.0 per cent. of loans in the Group's loan portfolio having the remaining contractual maturity of less than one year as at the same dates. This increases the volatility of TFB's funding base, although the average duration of customer deposits at the Group is between one and three years. Furthermore, TFB has relatively high depositor concentration. As at 30 June 2016 and 31 December 2015 and 2014, the Group received funds from 8, 11 and 7 customers amounting to RUB 15,575.3 million or 11 per cent. of total customer accounts, RUB 21,581.5 million or 19 per cent. and RUB 18,453.3 million or 20 per cent., respectively, which individually exceeded RUB 500 million. A withdrawal of large deposits may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB seeks to diversify its funding sources by continuing to access domestic and international capital markets through syndicated loan facilities and rouble-denominated bond and Eurobond issues, which are more costly and may contain negative covenants restricting TFB from carrying out particular activities. TFB's ability to continue to access the above markets to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian banking and financial systems. See "*The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition—Impact on Liquidity*".

A decrease in TFB's ability to access the international and domestic capital markets, or the domestic or international interbank loan market, or to effectively manage maturity mismatches between the Group's assets and liabilities may, together or separately, have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB's risk management policies and procedures may be ineffective

TFB's policies and procedures for managing credit risk, market risk, liquidity risk and operational risk may prove ineffective. See "*Assets, Liabilities and Risk Management*". Some of TFB's methods for managing risk are based upon observations of historical market behaviour, and TFB applies statistical techniques to these observations to arrive at quantifications of its potential risk exposures. However, these methods may not accurately quantify TFB's risk exposures, especially in situations that cannot be identified based on its historical data. In particular, if TFB enters new lines of business, historical data may be incomplete.

It is also possible that in times of financial and economic crisis TFB's ability to assess credit exposure and asset values is impaired as the models and techniques used may be less predictive of future conditions, behaviours and valuations. As additional information becomes available, TFB may need to make additional provisions if default rates are higher than expected. If circumstances arise whereby TFB did not identify, anticipate or correctly

evaluate certain risks in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. In addition, certain risks may not be accurately quantified by TFB's risk management systems. If a material deficiency in TFB's risk management or other internal control policies or procedures arises, this may expose it to significant credit, liquidity, market or operational risk, which, in turn, may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Deficiencies in respect of credit risk management may lead to TFB not being able to accurately assess default risk on loans provided to corporate, small business and retail clients. TFB may, therefore, need to make additional provisions if default rates are higher than expected. See "*TFB may be unable to adequately assess the credit risk of borrowers and counterparties*". Deficiencies in respect of liquidity risk management may result in the inability of TFB to meet its obligations in full when they become due without borrowing funds at higher than market rates, or at all. For instance, unanticipated decreases in corporate and small business client deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that TFB may not be able to cover through borrowing in domestic and international capital, syndicated loan and interbank markets or other funding sources that may become available to TFB. Deficiencies in respect of interest rate risk management may have a negative impact on TFB's funding costs, net interest income and net interest margin and may result in a gap between its interest-rate sensitive assets and liabilities. Currency risk management deficiencies may adversely affect the value of the Group's assets and liabilities denominated in foreign currencies and its income from operations in currency spot market and currency futures and over-the-counter ("**OTC**") forwards market. Deficiencies in respect of securities price risk management may adversely affect the value of TFB's securities portfolio. Operational risk management deficiencies may result in significant unanticipated losses resulting from, among other things, fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors. Therefore, material deficiencies in TFB's risk management policies or procedures could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

TFB may be adversely affected by interest rate volatility

The Group's net interest income is significantly impacted by volatility of interest rates. Movements in interest rates may adversely affect TFB's operations in a number of different ways. Interest rates are sensitive to many factors beyond TFB's control, including the policies of the CBR and central banks of other jurisdictions, domestic and international economic conditions and political factors. There can be no assurance that TFB will be able to protect itself from adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in associated net interest income and net interest margin and adversely affect TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Devaluation of the Rouble against the U.S. dollar and other currencies may have a material adverse effect on TFB and/or the Group

The Group's loan portfolio is principally denominated in Roubles. However, since a portion of the Group's assets and liabilities are denominated in foreign currencies, the Group's financial position and cash flows are exposed to the fluctuations of the foreign currencies exchange rates.

As a result of the general economic slowdown, decline in global oil prices and capital outflows, the Rouble depreciated sharply against the U.S. dollar and other foreign currencies during 2014 and reached RUB 67.79 per U.S.\$ 1.00 as at 18 December 2014. The Rouble then appreciated slightly and amounted to RUB 52.03 per U.S.\$ 1.00 as at 27 December 2014 but continued to decline throughout January 2015 which resulted in the RUB/USD exchange rate amounting to RUB 69.66 per U.S.\$ 1.00 as at 3 February 2015, representing a depreciation of 98.0 per cent. as compared to RUB 35.18 per U.S.\$ 1.00 as at 1 February 2014. The Rouble predominantly depreciated throughout 2015 which resulted in the exchange rate reaching a record maximum of RUB 83.59 per U.S.\$ 1.00 on 22 January 2016. While the Rouble showed a subsequent recovery with the RUB/USD exchange rate being RUB 62.20 per U.S.\$ 1.00 as at 12 October 2016, it is likely to remain volatile and vulnerable to economic downturns in the near future.

According to data published by the CBR, the CBR spent over U.S.\$ 100 billion of Russia's international reserves on money market interventions to support the Rouble since January 2014. As a result Russia's international reserves decreased by 4.4 per cent. in 2015. This, according to the regulator, induced the CBR to consider loosening the exchange rate policy and focusing on the measures to strengthen Russia's economic independence from the oil export prices rather than using Russia's international reserves. Hence, no assurance can be given that the CBR will continue to apply reserves or implement any other efficient measures to support the Rouble in the future.

Although TFB sets internal limits and performs certain other measures aimed at reducing exchange rate risk, including limiting TFB's open currency position to 2 per cent. of TFB's own assets, these efforts may be insufficient and fluctuations in exchange rates may adversely affect TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

In addition, TFB plans to continue to access the international capital markets, which subjects it to risks inherent in borrowing funds in foreign currencies and then using such funds to make loans predominantly in Roubles. Although TFB seeks to minimise such risks by buying foreign currency spot contracts and entering into foreign currency swaps, there is no guarantee that these measures will be effectively implemented, that they will allow TFB to minimise the impact of currency volatility or that they will be available to TFB going forward, in which case fluctuations in exchange rates may have a material adverse effect on TFB's operations.

Furthermore, during the periods under review, volatility of currencies had a significant impact on the Group's profit and loss. TFB trades currency for its own account and maintains open currency positions that result in foreign exchange risk. Although TFB has established limits on its open positions under the CBR regulations and internal policies that seek to minimise open currency positions, future changes in currency exchange rates and the volatility of the Rouble may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB's ability to achieve its strategic objectives is dependent on highly-qualified employees

TFB depends on highly-qualified employees, who are difficult to attract, retain and motivate. Competition for personnel with relevant expertise, including, for example, private bankers or personnel with knowledge and expertise in IFRS, is intense due to the relatively small number of available qualified individuals. The continued growth of TFB's existing operations

and its ability to execute its strategy depends on TFB's ability to retain existing employees and to identify and recruit additional individuals who are not only familiar with local customs and market conditions, but who also have the necessary qualifications and level of experience in corporate banking, small business banking, retail banking and investment banking. The pool of individuals with the required set of skills in the Russian Federation is much smaller than in most Western European countries or in the United States. Increasing competition from state-owned financial institutions in the Russian Federation may make it more difficult for TFB to pay competitive salaries and to attract and retain qualified employees and may lead to rising labour costs in the future. If TFB is unable to attract, train and retain sufficiently qualified individuals or if competition for qualified employees increases its labour costs, this may have a material effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes, and may impair TFB's ability to achieve its strategic objectives.

TFB's business is highly dependent on its information technology system

TFB's financial performance and its ability to meet its strategic objectives depend, and will depend to a significant extent in the future, upon the functionality of its information technology and its ability to increase systems capacity and scalability, in particular in light of TFB's strategy to increase retail and SME banking operations and to expand its presence in certain Russian regions. There can be no assurance that any disruption (even short term) to the functionality of TFB's existing or future information technology systems, delays, or other problems in increasing the capacity of the information technology systems, or increased costs associated with such systems, will not have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

TFB's activities may be limited by the highly regulated banking industry in which it operates

All banks operating in Russia are subject to extensive regulation and supervision. Requirements imposed by regulators, including capital adequacy and licensing requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom TFB deals. These requirements are not necessarily designed to protect creditors of TFB. Consequently, these regulations may limit TFB's activities, including its lending, and may increase its costs of doing business, or require TFB to seek additional capital in order to comply with applicable capital adequacy or liquidity requirements. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Any breach of applicable regulations could expose TFB to potential liability and other sanctions, including the revocation of its general banking licence, thus depriving it of the opportunity to carry on its business which, in turn, could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Violation of covenants in documentation related to the outstanding Eurobonds could lead to materially adverse consequences for its future operations

On 28 April 2014, the Issuer placed U.S.\$ 70 million 11 per cent. loan participation notes due 2017 (the "**2017 Notes**") issued with a sole purpose to finance a loan to TFB. On 27 October 2015, the 2017 Notes in the amount of U.S.\$ 55 million were early repaid under an offer. As at 30 June 2016, the amortized cost of the 2017 Notes was RUB 974.5 million. As long as

any of the 2017 Notes remain outstanding, TFB is required to pay or discharge or cause to be paid or discharged, before the same become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, of TFB and certain of its subsidiaries, and to comply with certain other covenants, some of which restrict TFB and its subsidiaries from corporate reorganisations, mergers and acquisitions and disposing of certain assets.

Further, the loan agreement made in connection with the issue of 2017 Notes contains cross-default provisions, pursuant to which the Group is required to fully comply with the mandatory ratios and other requirements established by the CBR and maintain the ratio of capital to risk-weighted assets of at least 11 per cent. calculated in accordance with Basel II Accord 2004 under IFRS accounting. As at 30 June 2016 and 31 December 2015, the actual ratio of capital to risk-weighted assets was 8.01 per cent. and 10.57 per cent., respectively, which constituted a formal default under the 2017 Notes. Following the breach of the covenants, the Issuer may declare all amounts outstanding under the relevant loan agreement (including the principal amount and the accrued interest) immediately due and payable. Should this happen, TFB may be required to obtain adequate cash to discharge such obligations. Moreover, default by TFB or certain of its subsidiaries may trigger the cross-default provisions of other agreements of TFB and attract negative publicity.

Since most of Eurobonds were repaid under the offer, the Group does not believe the redemption of the remainder will be demanded. Although the Group's management believes that implementation of measures under the plan for additional capitalization (See "*Business – Strategy – Improve its capital position*") will help keep the ratio at the level of at least 11 per cent., any material violations by TFB of covenants in documentation related to the 2017 Notes that could cause acceleration of repayments obligations or trigger cross-defaults could make it substantially more difficult for TFB to obtain financing in the future, which could prevent it from successful implementation of its strategy and could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

TFB may be unable to meet capital adequacy requirements

Under the CBR requirements, TFB is required to comply with a number of mandatory ratios. The CBR Instruction No. 139-I "On Banks' Mandatory Economic Ratios" dated 3 December 2012 provides that capital adequacy ratios consisting of common equity tier 1 capital adequacy ratio (N1.1), tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) (previously, N1 ratio) must be at least 4.5 per cent., 6.0 per cent. and 8.0 per cent., respectively, calculated on the basis of the Russian accounting standards (the "RAS"). In addition, with effect from 1 January 2016, new surplus capital adequacy ratios including specific ratios which apply to systemically important banks only, have been introduced. If TFB's capital adequacy ratios were to fall below the minimum levels, the CBR could impose various sanctions or, in the event of repeated violations, revoke TFB's general banking licence. Furthermore, the loan agreement entered into in connection with TFB's outstanding 2017 Notes contains covenants that require TFB's ratio of risk to capital-weighted assets, calculated in accordance with the requirements of the Basel Accord of 1988, to be at least equal to 11 per cent. and that TFB fully complies with the CBR mandatory ratios and other requirements. As at 30 June 2016 and 31 December 2015, the actual ratio of capital to risk-weighted assets calculated in accordance with Basel II Accord 2004 under IFRS accounting was 8.01 per cent. and 10.57 per cent., respectively, which constituted a formal default under the 2017 Notes. In addition, the CBR may amend the capital adequacy

requirement, increase the capital adequacy ratios at any point or introduce additional capital requirements and, in such circumstances, TFB would be forced to seek additional capital or alternative sources of financing to comply with these requirements, which may not be available or may only be available at commercially unsustainable prices. The shareholders of TFB are under no obligation to inject additional capital into TFB, and there can be no assurance that the shareholders will be willing or able to provide required capital and funding support to TFB in the future. Failure to increase TFB's capital levels may adversely affect TFB's ability to implement its strategic plans and may ultimately have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The revocation of TFB's existing banking licence by the CBR would have a material adverse effect on TFB's and/or the Group's business, financial condition or results of operations

As at the date of this Prospectus, all banking and various related operations performed by banks in Russia require a banking licence from the CBR. TFB has the required licence in connection with its banking activities. The CBR is the only body that is authorised to suspend or revoke a banking licence of a credit organisation for breach of any applicable banking regulations or non-compliance with mandatory economic ratios and reserve requirements set out by the CBR. If the CBR were to suspend or revoke TFB's general banking licence, then this would render TFB unable to perform any banking operations (including processing payments of its customers) and/or would lead to winding-up of its business (whether by way of bankruptcy proceedings or liquidation). If TFB's licence were to be revoked, it would have a material adverse effect on the business, financial condition, results of operations and prospects of TFB and/or the Group.

The interests of TFB's shareholders may conflict with those of the Noteholders

As at the date of this Prospectus, 32.8 per cent. of TFB's share capital is directly and indirectly owned by two individuals (one of which is a member of the Management Board of TFB and both of which are members of the TFB's Board of Directors), and 45.3 per cent. of TFB's share capital is directly and indirectly controlled by the Republic of Tatarstan, the major portion of which (36.1 per cent. of TFB's share capital) is owned by JSC Tatspirom (17.3 per cent. of TFB's share capital), the Ministry of Land and Property Regulations (10.1 per cent. of TFB's share capital) and OJSC Mortgage Agency of the Republic of Tatarstan (8.7 per cent. of TFB's share capital) which are all owned by the Republic of Tatarstan. See "Shareholders". The majority shareholders' interests may differ from the interests of Noteholders and from TFB. These three shareholders, acting in concert, will be able to determine the outcome of certain matters requiring shareholder approval without recourse to the minority shareholders, including related party transactions, approving acquisitions, dividend payments, other distributions or payments to shareholders designed to benefit the beneficial owners of TFB or cause TFB to enter into transactions advantageous to them or their business interests, even though such transactions may result in increased risk for TFB and the Noteholders, which could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB has a significant volume of transactions with its related parties. The proportion of the Group's gross loans to related party customers as a percentage of the Group's total tier 1 capital calculated in accordance with Basel II Accord 2004 under IFRS accounting increased to 107.2 per cent. as at 31 December 2015 from 83.8 per cent. as at 31 December 2014.

Although the Group plans to reduce the volume of related party transactions, no guarantee can be given that the Group will not enter into related party transactions on a non-arm's length basis in the future, which may have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

TFB's employees may not adhere to compliance procedures

TFB runs the risk that its employees will not adhere to its compliance procedures and limits on risk related activities. As a result, TFB faces the risk of loss due to issues that may arise out of its employees' lack of knowledge and wilful, negligent or involuntary violations of laws, rules and regulations or other misconduct. Misconduct by employees is a recurring risk in the financial services industry and could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including the violation of TFB's own internal risk management policies, could also include binding TFB to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. It is not always possible to guard against employee misconduct and ensure full compliance with TFB's risk management policies, and the precautions TFB takes to detect such activity may not always be effective. The direct and indirect costs of employee misconduct can be substantial and could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

Risks Relating to the Russian Federation

TFB is a Russian bank and substantially all of its and the Group's net interest income is derived from the Russian Federation. There are certain risks associated with an investment in Russia.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets and a financial crisis could have a particularly significant adverse effect on banks, including TFB, operating in emerging markets such as the Russian Federation

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic, financial and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid changes and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any large developing country may tend to adversely affect prices in equity and debt markets of other developing countries as investors move their money to more stable and developed markets. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market countries could have an adverse effect on the Russian economy.

The Russian markets have been highly volatile during the global economic downturn beginning in 2008. For example, in the fourth quarter of 2008, during the acute stage of the global financial and economic crisis, the Russian securities markets were highly volatile, resulting, on occasions, in a series of temporary suspensions in trading on the Closed joint-stock company "MICEX Stock Exchange" (the "**MICEX**") and Open Joint Stock Company "Russian Trading System" (the "**RTS**") by the Federal Service for Financial Markets of the Russian Federation, which had an adverse impact on the price of Russian securities generally.

As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in emerging economies, could dampen foreign investments in Russia and have an adverse effect on the Russian economy as a whole, which, in turn, could have an adverse effect on most Russian banks, including TFB, due to, among other factors, declines in the creditworthiness of many borrowers and an overall decrease in demand for loans. See "*Financial Review—Significant Factors Affecting Results of Operations—Russia's Economic Condition*". In addition, any financial turmoil can result in severe liquidity constraints for companies that operate in emerging markets due to the withdrawal of foreign funding sources or the reluctance of foreign investors to provide financing to borrowers in such emerging markets. Since TFB derives a significant proportion of its funding from issuing Eurobonds and interbank borrowing from banks located outside Russia, any significant decrease in availability of funding through international capital markets or bilateral or syndicated loan facilities provided by international banks could have an adverse effect on its operations. Accordingly, investors should exercise particular care when evaluating the risks associated with an investment in the Notes and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, such investments, and investors are therefore urged to consult with their own legal and financial advisers before making an investment in the Notes.

The European sovereign debt crisis of 2011 and 2012, generally, had limited impact on the Russian economy since it has not led to significant declines in the prices of Russia's key exports (which are mainly natural resource commodities, including oil and gas) as well as due to Russia's relatively healthy public finances including a low debt to GDP ratio, small budget deficit, and high level of international reserves. While European markets generally showed recovery during 2013 and 2014, in 2015 and in the first quarter of 2016, they remained relatively unstable and highly susceptible to financial and political events, including slowdown of China's economy and the future exit of the United Kingdom from the EU following Brexit. No assurance can be given that a further economic downturn or financial crisis will not occur, or that measures to support the banking system, if taken to overcome a crisis, will be sufficient to restore stability in the global banking sector and financial markets in the short term or beyond. Should any of these events lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

Political risks

Political and governmental instability in the Russian Federation

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of

the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations of the 1990s, as well as to unrest by some social and ethnic groups.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities; this impacted negatively upon the business and investment climate in the Russian Federation. Over the past two decades the course of political, economic, regulatory and other reforms has, in some respects, been uneven and the composition of the Russian Government has, at times, been unstable.

Vladimir Putin, the President of the Russian Federation, is generally credited with having increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment.

On 4 March 2012, the most recent presidential elections were held in the Russian Federation. In September 2016, the State Duma elections were held in the Russian Federation and the next presidential elections are scheduled for March 2018. Although the structure of political forces in the State Duma did not change substantially, it is currently unclear what outcome the most recent State Duma and the upcoming presidential elections might have on the Russian political system. While the Russian political system and the relationship between the Russian President, the Russian Government and the State Duma currently appear to be stable, future political instability could result from deterioration in the overall economic situation, including any decline in standards of living, as well as from the results of the elections to the State Duma and upcoming elections of the Russian President. Shifts in government policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic, regulatory and other reforms. Any significant change in, or suspension of, the Russian Government's programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian Government, the State Duma and powerful economic groups could lead to a deterioration in Russia's investment climate that might limit the ability of the Group to obtain financing in the international capital markets or otherwise have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Political, social and military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy

The Russian Federation is a federation of 85 political units, which include republics, territories, regions, cities of federal significance, an autonomous region and autonomous districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Russian Government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, conflicting laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and the governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have, in the past, been challenged in Russian courts and such challenges may occur in the future. This lack of consensus creates uncertainties in the operating environment in the Russian

Federation, which could hinder TFBs long-term planning efforts and may prevent TFB from effectively and efficiently carrying out its business strategy.

Military conflicts and international terrorist activity and natural disasters have historically had a significant effect on international finance and commodity markets. Thus, the conflict in the Russian region of Chechnya in the late 1990s and into the 2000s brought normal economic activity within Chechnya to a halt for a period of time and adversely affected the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow. Suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in the aggregate. Further, suicide bombings were carried out in December 2013 in the Volgograd-1 train station and later in a public trolleybus in the city of Volgograd in the Southern Federal District of Russia resulting in 34 fatalities in the aggregate. Most recently, Russia entered the Syrian conflict in September 2015 to assist Syrian government in retaking territory from various opposition groups. In March 2016, Russia declared the withdrawal of troops from Syria. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy.

Historically, natural disasters have adversely affected the global and Russian economy and financial market. For example, in July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, addressing environmental concerns and repairing the damage caused by the fires and other natural disasters may have had an adverse effect on the Russian economy. The risks associated with these or similar events could materially and adversely affect the investment environment and overall consumer confidence in Russia, which, in turn, could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

The current crisis in Ukraine and the reaction of the U.S., the EU and certain other countries to Russia's actions in connection with Crimea creates significant political and economic uncertainty which may adversely impact TFB's and/or the Group's financial condition

The recent significant civil unrest and political instability in Ukraine has affected the relations between the Russian Federation and Ukraine. On 16 March 2014, a referendum was held in Crimea pursuant to which the majority of those who voted were in favour of succession from Ukraine and joining Russia as a federal subject. On 17 March 2014, the parliament of Crimea declared independence from Ukraine and officially applied to the Russian authorities with a request to join Russia which on 18 March 2014 was followed by the signing of an agreement between the Russian Federation and the Republic of Crimea on the acceptance of the Republic of Crimea into the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and state authorities to the territory of Crimea.

These events in Crimea and the resulting change in Crimea's legal status have prompted a negative reaction from the U.S., the EU and certain other countries that refused to recognise

the referendum in Crimea as legal. As a result of these events, the United States and the EU have imposed sanctions on a number of individuals and entities, including former Ukrainian governmental officials, Russian Government officials and individuals, several Russian businessmen, several Russian companies and banks, as well as several non-Russian companies holding assets in Russia. The imposed sanctions vary in scope and include the blocking of funds, property and interests of a number of designated persons and entities; restrictions on access to the U.S. debt and equity market and the EU capital markets for certain designated entities, as well as visa bans for certain individuals. The U.S. has also imposed comprehensive sanctions on Crimea. No assurance can be given that additional persons, including members of the Group, will not be subjected to sanctions or that other jurisdictions or international bodies will not impose similar or additional sanctions. See *"Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or an expansion of the Group's dealings with any parties subject to sanctions could have a material adverse effect on TFB's and/or the Group's financial condition"*.

As of the date of this Prospectus, the Group had no direct exposure to Ukraine or Ukrainian counterparties, including banks, and, save as disclosed in this Prospectus (See *"Financial Review – Significant Factors Affecting Results of Operations"*), the events in Ukraine had no direct impact on TFB's and/or the Group's business, financial condition and results of operations. As a consequence, any adverse effect on the Ukrainian economy is unlikely to have a material adverse impact on TFB's and/or the Group's financial condition, results of operations or prospects. Although to date no member of the Group has been included in the list of OFAC Specially Designated Nationals and Blocked Persons or equivalent list operated by the EU and TFB has no reason to believe that the Group may be specifically targeted by OFAC or EU sanctions, the reaction of the U.S., the EU and certain other countries, and in particular the economic sanctions described herein, may adversely affect the Russian economy and the Russian financial and banking markets, increase capital outflows as well as worsen the general business and investment climate in Russia. In addition, if further sanctions targeting the Russian banking sector are imposed or the Group becomes specifically targeted by OFAC or EU sanctions, such sanctions are likely to have a material adverse impact on the Group's business, financial condition and results of operations. Credit ratings of the Russian Federation and a number of prominent Russian credit institutions have been subject to review and downgrades recently (see *"The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition - Dislocation of global and Russian banking sectors"*). The rating agencies mentioned the continuous effect of US and EU sanctions as one of the factors affecting these downgrades. Moreover, the continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions may have a further adverse effect on the Ukrainian and Russian economies and consequently, a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

Deterioration of Russia's relations with other countries could have an adverse effect on TFB's and/or the Group's business, financial condition and results of operations and the value of the Notes

Potential military conflicts with other countries and the risks associated with these events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on

TFB's and/or the Group's business, financial condition, results of operations and the value of the Notes. Over the past several years, Russia has been involved in military conflict with other countries some of which are current and potential future markets for TFB's services. For example, a military conflict in August 2008 between the Russian Federation and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. In the beginning of 2014, the Russian Federation's support of a referendum on the status of Crimea, an autonomous parliamentary republic within Ukraine, resulted both in a significant decline in the price of Russian securities and a devaluation of the Rouble. It has also resulted in the deterioration of Russia's relations with other members of the international community, including members of the EU, United States and CIS countries. The emergence of new or escalation of existing tensions between the Russian Federation and other countries could negatively affect economies in the region, including the Russian economy, and could have a material adverse effect on TFB's and/or the Group's business, financial condition and results of operations and may lead to reduced liquidity, trading volatility and a negative effect on TFB's ability to raise debt or equity capital in the international capital markets.

Economic risks

Economic instability in the Russian Federation

Since the dissolution of the Soviet Union, the Russian Federation has experienced and/or is currently experiencing:

- significant declines in GDP;
- high levels of inflation;
- an unstable currency;
- high levels of state or corporate debt, relative to GDP;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian corporate and individual borrowers;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy procedures;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of the "black" and "grey" market economies;
- pervasive capital flight;
- high levels of corruption and extensive penetration of organised crime into the economy;
- political and social instability;

- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to abrupt downturns in the past. In addition, as Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases in 2014 and 2015. An additional cause for concern regarding the stability of the Russian economy has been associated with the advent of intensive shale oil and gas exploration in the U.S. and elsewhere around the world, which is claimed by some experts to undermine Russia's leading positions in export of these resources.

In March 2014 both Fitch and S&P adjusted their sovereign rating outlooks for the Russian Federation from "stable" to "negative". The change was mainly driven by the deterioration of geopolitical situation, in particular, introduction by the United States and the European Union of sanctions in respect of certain Russian individuals and/or their assets, slowdown of Russia's economic growth and potential outflow of capital from Russia, all of which, according to Fitch and S&P, have already had or may have in future a negative impact on Russian economy. In 2014-2015 and the first half of 2016, credit ratings of the Russian Federation and a number of prominent Russian credit institutions have been subject to review and subsequent downgrades (see "*The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition - Dislocation of global and Russian banking sectors*"). According to the rating agencies, the rationale behind the downgrades included sharp falls in the oil price, Russian financial system turbulence, depreciation of the Rouble coupled with a steep rise in interest rates and the continuous effect of Western sanctions. There can be no assurance that a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

TFB could be adversely affected by significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

Against the backdrop of the unprecedented lack of liquidity and high cost of funds in the international and Russian domestic interbank lending markets, TFB is subject to the risk of deterioration in the commercial soundness and/or perceived soundness of other financial institutions both within and outside Russia. Most recently, TFB has been negatively affected by failures of LLC Vnesheprombank and JSC Unifin which resulted in recognition by the Group of losses from investments available for sale and increase in the allowance for impairment. A deterioration in the commercial soundness and/or perceived soundness of the

Russian or global financial sector could negatively impact TFB's ability to access the capital markets and increase its counterparty risk in relation to other financial institutions. If such problems were to persist, a default by, or concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects and the value of the Notes.

Official data published by Russian agencies may be unreliable

Official statistics and other data published by Russian federal, regional and local governments, federal agencies and the CBR are in certain respects less complete or reliable than those of some of the more developed market economies of North America and Europe. Official statistics may also be produced on different bases than those used in Western countries. Due to the unavailability of alternative reliable sources of country-specific data, Russian companies have to rely on such official statistical data in their business planning. As a result, some assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of TFB's corporate customers, which would have a material adverse effect on TFB's and/or the Group's business, financial position, results of operations and prospects, as well as the value of the Notes.

In preparing this Prospectus, TFB has relied on and referred to information from various third-party sources and its own internal estimates. For example, a significant portion of information concerning TFB's competitors and banking industry in Russia has been derived from publicly available information, including the CBR. TFB and the Issuer have not independently verified them and, therefore, any discussion of matters relating to Russia in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The return of the Russian Federation to heavy and sustained inflation may adversely affect TFB's and/or the Group's results of operations

According to Rosstat, in 2013, inflation in the Russian Federation was 6.5 per cent. In 2014 and 2015, the inflation rate increased to 11.4 per cent. and 12.9 per cent., respectively, and, in the second quarter of 2016, amounted to 3.9 per cent. as compared to 9.4 per cent. in the second quarter of 2015. Any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for TFB's products and services and result in a material adverse effect on TFB's and/or the Group's business, financial condition, results of operations and prospects.

Social risks

Social instability could lead to labour conflicts and social tensions and unrest and, as a result, increased support for renewed centralised authority

The past failures of the Russian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour

and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the recent global economic downturn, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict TFB's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on TFB's and/or the Group's business, results of operations and financial position and prospects and the value of the Notes.

Crime and corruption could adversely affect the value of investments

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies and facilitating payments. Additionally, published reports indicate that a significant number of the Russian media regularly publishes biased articles in exchange for payment. TFB's and/or the Group's business, results of operations, financial condition and prospects, as well as the value of the Notes, could be materially adversely affected by illegal activities or corruption or by claims alleging that any member of the Group is involved in illegal activities.

Legal Risks

Risks related to the Russian legal system and legislative weaknesses

The Russian Federation continues to develop a legal framework adequate to facilitate the proper functioning of a market economy. The recent nature of much of the Russian legislation and regulation and the rapid evolution of the Russian legal system place the enforceability of certain laws and regulations in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that TFB's management makes:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Civil Code of the Russian Federation (the "**Civil Code**") and other federal laws and by decrees, orders, regulations and resolutions issued by the President, the Russian Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There have been, and continue to be, inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion;
- substantial gaps in the regulatory structure may be created by delay in or the absence of regulations implementing certain legislation;

- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited value as precedents;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation that is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and other influences in the Russian Federation remains questionable. The court system is, to a certain extent, understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced and unsophisticated in business and corporate law. In addition, most court decisions are not readily available to the public. The enforcement of court judgments can, in practice, be very difficult in the Russian Federation.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims and court judgments are not always enforced or followed by law enforcement agencies.

These weaknesses of the Russian legal system create a considerable uncertainty in legal and operating environment for Russian banks and banking groups, including TFB, as compared to banks in developed countries. In such environment, it is more difficult for the Group, as well as for the other Russian banks and banking groups, to comply with existing and future laws and regulations and the terms and conditions of its licenses and permits, the violation of which may result in the imposition of fines or penalties or more severe sanctions. These weaknesses also affect TFB's costs of compliance and the costs of doing business generally and create an unfavourable environment for quick and efficient resolution of disputes with other parties. If any of these events materializes in respect of TFB, this could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Unlawful or arbitrary government actions

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in documentation of financing activities, accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such financing activities, share issues and registrations and/or to void transactions. Unlawful or arbitrary state action, if directed at TFB, could have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Enforcement of TFBs rights in Russia including the enforcement of security or guarantee arrangements in Russia may be time consuming or impossible

The current status of the Russian legal system makes it uncertain whether TFB would be able to enforce its rights in disputes with its contractual counterparties. TFB's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts. Any of the above may have an adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Under Russian law, collateral (which includes, among others, pledges and mortgages) and guarantees (other than certain types of guarantees) are considered to be secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, enforcement of security under Russian law may require a court order and, in the case of pledges and mortgages, may also require a public sale of the collateral. A court may, in certain circumstances, delay such public sale for a period of up to one year upon a pledgor's or mortgagor's application. Out-of-court enforcement procedures are still underdeveloped and may be subject to various interpretations. In addition, with effect from 1 July 2014, the Civil Code provisions relating to pledge and, with effect from 1 June 2015, the Civil Code provisions relating to the law of obligations (and security arrangements in particular) were further amended as a result of which in particular certain new concepts were introduced into the Russian legislation. The uncertainty and regular amendment of legislation on pledge may result in TFB facing significant difficulties with the enforcement of collateral.

A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Pledge perfection system for collateral other than mortgages, shares in Russian joint stock companies and participation interests in Russian limited liability companies is still in the process of development, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, TFB may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may adversely affect TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

In addition, a substantial proportion of TFB's loans are guaranteed by legal entities and/or individuals. If the guarantor's financial condition deteriorates or if TFB is unable to enforce the guarantee, it may suffer losses, which could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Group's assets

Although the Russian Government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections would be enforced. This uncertainty is the result of several factors, including the lack of state budgetary resources, an independent judicial system and sufficient mechanisms to enforce judgments. The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government

decides to nationalise or expropriate some or all of the Group's assets. The expropriation or nationalisation of any of the Group's assets without fair compensation may have a material adverse effect on TFB's and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

Shareholder liability under Russian law could cause TFB to be liable for the obligations of its subsidiaries

The Civil Code, Russian Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the "**Joint Stock Companies Law**"), and Russian Federal Law No. 14-FZ "On Limited Liability Companies" dated 8 February 1998, as amended (the "**LLC Law**"), provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company generally are not liable for that company's obligations and bear only the risk of loss of their investment. Additional shareholder liability may arise, however, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**") or approves the transaction entered into by the Effective Subsidiary, subject to certain exceptions set out in the Civil Code. The Effective Parent bears joint and several liability for transactions concluded by the Effective Subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the Effective Subsidiary or in a contract between the companies; and
- the Effective Parent gives binding directions to the Effective Subsidiary or approves the transaction entered into by the Effective Subsidiary.

In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's faulty actions or inactions and whose assets are insufficient to meet the creditors' claims. In these instances, the other shareholders of the Effective Subsidiary may claim compensation for the Effective Subsidiary's losses from the Effective Parent that causes the Effective Subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses.

Accordingly, subject to the conditions described above, TFB could be liable for the debts of its subsidiaries, which could adversely affect TFB's business, results of operations, financial condition and prospects and the value of the Notes.

Russian law requires joint stock companies to buy back shares in certain circumstances, which may impose additional costs on TFB and adversely affect its and/or the Group's financial condition and results of operations

The Joint Stock Companies Law provides that shareholders of a company that vote against or abstain from voting on certain matters have the right to sell their shares back to the company at market value. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganisation;
- approval by shareholders of a major transaction involving property valued at more than 50 per cent. of the balance sheet value of the company's assets calculated according to RAS, regardless of whether the transaction is actually consummated;

- amending the company's charter in a manner that limits shareholders' rights; and
- approval by shareholders of a delisting of shares or other securities convertible into shares in the company and introducing amendments to the company's charter triggering such delisting.

The obligation to purchase shares in these circumstances, which is limited by the Joint Stock Companies Law to 10 per cent. of the company's net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could adversely affect TFB's and/or the Group's cash flows, business, financial condition and results of operations and the value of the Notes.

Interested party transactions, including transactions between TFB and its subsidiaries, may be challenged under Russian law

Subject to certain exceptions set out in the Joint Stock Companies Law, any transaction TFB enters into with an interested party (as defined in the Joint Stock Companies Law) must be approved by the board of directors (supervisory board) or shareholders (as the case may be) before it is concluded. Russian law defines interested party transaction as a transaction that meets certain criteria and in which one of the following persons has an interest: a member of the company's board of directors (supervisory board), the management company, a member of the executive body of the company, a company's shareholder which owns together with its affiliates 20 or more per cent. of shares in the company or a person entitled to give binding instructions to the company. If the company fails to obtain the approval for any such transaction, it may be challenged in court by a range of parties, including TFB, any of its shareholders or, if insolvency proceedings are commenced against TFB, by a court-appointed arbitration manager acting on behalf of its creditors. If a challenge is upheld, the relevant transaction can be overturned.

In addition, due to the technical requirements of Russian law, entities within the Group may be deemed interested parties with respect to certain transactions among themselves. As some of the Group companies are not wholly-owned, this may limit their ability to engage in certain intra-group transactions (including financing transactions) as such transactions may be qualified as interested party transactions under Russian law and be required to be approved as such. Furthermore, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons", which, under Russian law, may be subject to various interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as interested party transactions may also be subject to varying interpretations, making it hard to determine conclusively which of the transactions will be free from challenge. Any such challenge could result in the invalidation of transactions that are important for TFB's business. Failure to obtain the necessary approvals for transactions involving companies within the Group or any challenge thereof could have a material adverse effect on TFB's and/or the Group's business, financial condition and results of operations and the value of the Notes.

Furthermore, with effect from 1 January 2017, the regulation of interested party transactions, including the definition of an "interested party", set forth in the Joint Stock Companies Law will be amended. In the absence of court practice or official clarifications, it is currently unclear how these amendments will operate and to what extent these amendments will affect TFB's and the Group's transactions. As at the date of the Prospectus, the new provisions have not entered into force and have not been tested in courts and, therefore, remain subject to

ambiguous or conflicting interpretation (see "*Appendix A— Overview of the Banking Sector and Banking Regulation in the Russian Federation—Recent Amendments to the Regulation of Interested Party and Major Transactions*").

In the event that an interested party transaction is not duly approved and is successfully challenged, TFB and the Group could be limited in its operational flexibility in connection with such transactions and its business, financial condition and results of operations and the value of the Notes could be materially adversely affected.

The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments

The Russian parliament has recently implemented widespread amendments to the Civil Code, many of which became effective in 2014, 2015 and 2016. The scope of these amendments modify existing laws governing, among other things, regulation of legal entities, certain types of transactions, pledges, mortgages, other security arrangements and property rights. (See "*Appendix A— Overview of the Banking Sector and Banking Regulation in the Russian Federation—Recent Amendments to the Civil Code*") for detailed information regarding the scope of these amendments. As of the date of this Prospectus, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on the Group's activities and corporate governance, are not entirely clear.

The Russian public reporting requirements and accounting regulations, to which TFB is subject, differ significantly from those applicable to comparable companies in other jurisdictions

TFB's corporate affairs are governed by its charter, its internal regulations and the laws governing Russian banks and companies incorporated in Russia. The responsibilities of members of TFB's board of directors and management board under Russian law are different from those applicable to, and may be subject to certain requirements not generally applicable to, companies organised under the laws of the United Kingdom, the United States or other developed countries. Russian banking and securities market regulations contain certain disclosure requirements, including the requirement to file periodic financial statements prepared in accordance with RAS with the CBR. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAS and that prepared under IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such financial information when evaluating the financial performance of the Group. In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about TFB than there is available for comparable banks and banking groups in, for example, the United Kingdom or the United States.

Risks Relating to Russian Taxation

Russian tax law and practice are not fully developed and are subject to frequent changes

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

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

Russian laws and regulations related to these taxes, such as the Tax Code of the Russian Federation (the "**Russian Tax Code**") have been in force for a relatively short period in comparison with tax laws and regulations in more developed market economies. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in the Russian Federation has been relatively ineffective, resulting in continuous changes to the tax legislation, some of which may apply retroactively and occur with little notice.

Although the Russian Federation's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code in July 1998, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that the Government of the Russian Federation may impose arbitrary and/or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

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

Furthermore, taxpayers, the Ministry of Finance of the Russian Federation and the Russian tax authorities often interpret tax laws differently. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance of the Russian Federation are not binding on the Russian tax authorities. There can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. Moreover, there can be no assurance that Russian legislation and regulations will not be altered, in whole or in part, or that the Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Prospectus would be subject to tax treatment different from the treatment described herein, whether retroactively or otherwise, or would be adversely affected in some other way.

During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of Russian companies operating in various industries, including the financial services industry.

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

The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgment of local tax authorities and fails to address many of the existing

problems. It is, therefore, possible that transactions and activities of TFB and the Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

On 12 October 2006 the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 (the "**Ruling**") which introduced a concept of the "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (such as tax benefits received in connection with transactions that lack reasonable business purpose), which may lead to the disallowance of the application of that specific benefit for tax purposes. Based on the available court practice it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of tax law, based on tax disputes relating to its application in cases which were brought to courts and are available to date, it can be concluded that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court of the Russian Federation. The available court practice is rather contradictory. There are some cases where this concept has been successfully applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. It is difficult to predict how the court practice will evolve in future.

Tax declarations together with related documents are subject to review and investigation by a number of the Russian tax authorities, which are empowered by Russian law to impose severe fines and penalties on taxpayers. Generally, tax returns together with the related documentation remain open and subject to inspection by the Russian tax authorities in the course of on-site tax audits for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. Tax audits can, however, go beyond this general three-year term to cover the tax period for which an amended tax return (if any) has been filed. The fact that a particular year has been reviewed by the Russian tax authorities does not prevent further review of that year, or any tax return and other documentation applicable to that year, from any further reviews during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a control measure over the activities of the lower level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the Russian revenue. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

Additionally, the Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer is deemed to have obstruct the performance of the tax audit and this has become an "insurmountable obstacle" for the tax audit. As the terms "obstructed" and "insurmountable obstacle" are not specifically defined in Russian tax law or any other branches of Russian law, Russian tax authorities may attempt to

interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of taxes in Russia. If as a result of such extended tax audit it is concluded that the Russian subsidiaries of the Group had significant tax underpayments for respective tax periods, it may have a material adverse effect on the Group's business, financial condition and results of operations, prospects and the trading price of the Notes. Tax audits may also impose an additional administrative burden on the Group by diverting the attention of its management and financial personnel and requiring resources for defending the Group's tax filing position, including for any tax litigation.

Special consideration should be given to the current regulatory and economic environment in Russia. In addition to the tax authorities taking more assertive positions in tax audits, recent developments also demonstrate that the Russian court tend to take more fiscal oriented approach. Besides the usual tax burden imposed on Russian taxpayers, these conditions complicate effective management of tax liabilities and related business decisions. This uncertainty could possibly expose the Group to significant fines and penalties and to enforcement measures, despite the Group's best efforts at compliance, and could result in a greater than expected tax burden.

These facts create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Group. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition, TFB is subject to periodic tax inspections that may result in additional tax assessments both in respect of the current and prior tax periods. TFB's tax burden may become greater than the estimated amount that it has paid or accrued on its balance sheet. There also can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated.

Introduction of new taxes or amendments to current rules of taxation may affect the Group's overall tax efficiency and may result in significant additional tax liabilities. TFB cannot provide prospective investors with any assurance that additional Russian tax exposures will not arise whilst the Notes are outstanding. Additional tax exposures could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian Federation is actively involved in discussing measures against tax evasion by the use of low tax jurisdictions and aggressive tax planning structures. Starting from 1 January 2015 the following rules (concepts) (introduced into the Russian Tax Code) became effective:

- 1) "controlled foreign companies" rules, pursuant to which in certain circumstances undistributed profits of certain foreign organizations as well as foreign structures (not being legal entities), which are ultimately owned or/and controlled by Russian tax residents, should be subject to taxation in Russia;
- 2) the concept of tax residency for legal entities whereby generally legal entities would be deemed Russian tax residents if their place of management is located in Russia.

- 3) the beneficial ownership concept which is broadly in line with the concept developed by the Organisation for Economic Cooperation and Development (the "OECD"), and establishes that treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e. they qualify as a "beneficial owner of income").

Introduction of the abovementioned new rules (concepts) and some other anti-avoidance initiatives are likely to impose additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and, consequently, their potential impact (including, additional tax liability, if any) on the Group.

Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations

Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions. The list of "controlled" transactions under this legislation includes transactions performed with related parties and certain types of cross-border transactions. Special transfer pricing rules apply to controlled transactions with securities and derivatives. The burden of proving market prices rests with the taxpayer.

Due to uncertainties in the interpretation of the Russian transfer pricing legislation and absence of court practice, no assurance can be given that the Russian tax authorities will not challenge prices of the transactions of the Group and make adjustments, which could adversely affect the Group's tax position. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risks Related to the Notes, the Loan and the Trading Market

Payments under the Notes are limited to the amount of certain payments received by the Issuer in respect of the Loan

The Issuer is a special purpose vehicle with no business other than issuing notes and advancing loans under the relevant loan agreements and has no assets other than the loans it has made available to TFB. In each case where amounts of principal, interest and additional amounts, if any, under "*Terms and Conditions of the Notes*" or the Trust Deed are to be paid by the Issuer in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts, if any, actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement less any amounts in respect of the Reserved Rights. Consequently, the failure of TFB to meet its payment obligations under the Loan in full would result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts, if any, on the relevant due date.

No direct recourse of the Noteholders to TFB

At maturity, TFB may not have the funds to fulfil its obligations under the Loan and it may not be able to arrange for additional financing. Except as otherwise disclosed in the "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Therefore, subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to TFB, except through action by the Trustee to enforce the security under the Trust Deed. As further described in, and subject to the provisions of, the Trust Deed, neither the Issuer nor the Trustee, pursuant to the assignment of the Assigned Rights (as defined in the Trust Deed), shall be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Prepayment of the Loan

Under the terms of the Loan Agreement, TFB may, subject to certain conditions, prepay the Loan if TFB is required to increase its payments for tax reasons, regardless of whether the increased payment obligations result from any change in applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. In the event that it becomes unlawful for the Issuer to allow the Loan to remain outstanding under the Loan Agreement, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, TFB may be required by the Issuer to repay the Loan in full. In case of any such prepayment, all outstanding Notes would be redeemable at par with accrued interest.

Uncertainty of public market for the Notes

There may be no existing market for the Notes. The Issuer has applied for the Notes to be admitted to trading on the Main Securities Market of the Irish Stock Exchange. However, an active trading market in the Notes may not develop or be maintained after the Notes have been admitted to trading. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, stock markets in recent years have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations, as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

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

The markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar

to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Notes.

The Notes may not be a suitable investment for all investors

In addition to the risks associated with investing in emerging markets such as Russia, each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as standalone investments but as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowings; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

An expansion of OFAC or EU sanctions programmes could adversely impact the trading market for the Notes

If OFAC or EU sanctions programmes are significantly expanded, including, inter alia, in relation to the Russian banking, financial services or energy sector as described under "*Non-compliance with OFAC and EU sanctions programmes, an expansion of these*

programmes or an expansion of the Group's dealings with any parties subject to sanctions could have a material adverse effect on TFB's and/or the Group's financial condition" above, the trading market for the Notes and the rights of the Noteholders may be materially adversely affected.

As of the date of this Prospectus, the Group's dealings with persons designated pursuant to the OFAC and EU sanctions programmes are limited. However, if OFAC or EU sanctions programmes are expanded to include TFB's additional existing or future clients, shareholders, suppliers or other counterparties, including through further broadening of the SSIL or otherwise, the Group's dealings with designated persons may become material, which may force some Noteholders to sell their interests at a loss in any Notes due to internal compliance requirements or any laws or regulation applicable to such Noteholders, as well as cause the trading market for the Notes to become less liquid as some investors may be prevented from purchasing the Notes. In addition, the secondary market for the Notes may become less liquid due to the current negative market environment and the imposition of certain sanctions on the Group. See "*—Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or an expansion of the Group's dealings with any parties subject to sanctions could have a material adverse effect on TFB's and/or the Group's financial condition*".

The OFAC and EU sanctions programmes that target Russian persons are relatively recent and the application of these sanctions remains subject to interpretation and implementation by various regulators and market participants which may deviate from TFB's interpretation and application of these sanctions to itself and its counterparties. No assurance can be given that the potential impact of such dealings or of such varying interpretations would not have a material adverse effect on TFB's and/or the Group's business, financial condition and results of operations or the legal positions of the Noteholders and/or the value of the Notes. Although not currently expected, should the manner in which the sanctions are applied or interpreted change, the ability of Russian companies to transact with U.S. or EU persons may be affected, and, as such, Russian companies may be unable to make scheduled payments of principal and interest on their borrowings.

Although TFB has no reason to believe that any member of the Group may be specifically targeted by OFAC or EU sanctions, the expansion of the existing and the introduction of any further large scale sanctions on TFB or the Russian banking sector, including through further broadening of the SSIL, may negatively impact TFB's ability to make scheduled payments of principal and interest under the Loan, as any such payments could be frozen as a consequence of such sanctions before receipt by the Issuer. Any such freezing of payments will be outside of the control of TFB as it will result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the Issuer's and the Agents', or the Trustee's, as the case may be, ability to make scheduled payments of principal and interest under the Notes may be impaired. Whilst TFB would consider and, to the extent possible, take measures available to it to discharge its obligations under the Loan, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the expansion of the existing and the imposition of sanctions on TFB or the Russian banking sector, including through further broadening of the SSIL, could result in the Noteholders not receiving timely scheduled payments under the Notes or not receiving such payments at all and/or as a consequence an Event of Default may occur under the Loan. Moreover, should any member of the Group become subject to either OFAC or EU sanctions, the relevant clearing systems, brokers and other market participants as well as the Irish Stock Exchange may refuse to permit trading in

or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

The Borrower's payments under the Loan may be subject to withholding tax that may reduce the payments under the Notes

In general, interest payments on borrowed funds made by a Russian organization to a non-Russian resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at a rate of 20 per cent. (or such other tax rate as may be effective at the time of payment), unless the Russian withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to treaty clearance formalities to be satisfied by the foreign legal entity in a timely fashion or the Russian tax exemption relating to such payments is applied.

In particular, no withholding tax obligation should arise on interest on debt obligations owed by a Russian borrower in connection with the issuance of certain debt securities by a foreign entity (a "**Eurobond Structure**") by virtue of a specific exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides that Russian borrowers (acting as tax agents) should be released from the obligation to withhold income tax from interest and other payments on debt obligations owed to foreign entities provided that certain conditions are met throughout the term of such debt obligations. See "*Tax Considerations — Russian Federation*". If the conditions envisaged by the Russian Tax Code for the release from the obligation to withhold tax are not met, then interest payments payable under the Loan Agreement will be subject to Russian withholding tax (with possible reduction or elimination of the Russian withholding tax pursuant to the terms of an applicable double tax treaty).

Importantly, the Russian Tax Code does not provide for the exemption to the foreign interest income recipients from Russian withholding tax, although as at the date of this Prospectus there is no requirement or mechanism in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that rules on self-assessment and payment of the respective withholding taxes by non-residents will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond Structures and would not make attempts to collect the tax from the foreign income recipients including the Issuer, the Noteholders and/or the Trustee. See "*Tax Considerations — Russian Federation*".

If interest and/or any other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code would be available to the Borrower. See "*Tax Considerations — Russian Federation*." There is a potential risk that Russian withholding tax in respect of payments of interest and some other amounts to the Trustee at the rate of 20 per cent. (or such other tax rate as may be in force at the time of payment) or, potentially, with respect to Non-Resident Noteholders-Individuals Russian personal income tax at the rate of 30 per cent. (or such other tax rate that may be effective at the time of payment) may be deducted by the Borrower upon making such payments to the Trustee. See "*Tax Considerations — Russian Federation*".

Nevertheless, if interest payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer/Borrower would reduce payments made under the corresponding Notes/the Loan by the amount of the tax withheld), the Borrower will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging TFB to gross up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that the interest payments made by TFB under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by TFB at the rate of 20 per cent. (or such other rate as may be in force at the time of payment) or, potentially, with respect to Non-Resident Noteholders – Individuals Russian personal income tax at a rate of 30 per cent. (or such other rate as may be in force at the time of payment), as applicable, withheld by the Borrower at source. If the Borrower is obliged to increase any payments on the Loan or to make additional payments on the Loan as described above, it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "*Terms and Conditions of the Notes*" and "*Tax Considerations*".

Tax might be withheld on disposals of the Notes in Russia, reducing their value

Where the proceeds from the sale or other disposal of the Notes (including accrued and paid interest on the Notes) are deemed to be received from a source within Russia by a Non-Resident Noteholder-Individual (as defined in "*Tax Considerations – Russian Federation*"), a Russian personal income tax at a tax rate of 30 per cent. (or such other tax rate as could be effective at the time of such sale or other disposal) will apply to the gross amount of proceeds from the sales or other disposal proceeds realized upon such sale or other disposal of the Notes less duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available in a timely manner to the tax agent responsible for calculating and obligated to withhold Russian personal income tax.

Although technically Russian personal income tax due on proceeds from disposal of the Notes may be reduced or eliminated based on provisions of an applicable double tax treaty entered into between Russia and the country of tax residency of a particular Non-Resident Noteholder-Individual, subject to timely compliance by that Noteholder with the treaty clearance procedures, in practice such Noteholders might not be able to obtain the advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia. Obtaining a refund of Russian personal income tax that was excessively withheld at source could be difficult, or impossible in some cases.

For personal income tax purposes, deductible costs and proceeds from the disposal of Notes are converted into Roubles at the exchange rate provided by the CBR as of the date the costs were incurred and proceeds received. This may result in receipt of, or increase in, taxable income in Rouble terms due to a devaluation of the Rouble (whereas in foreign currency terms there might be no gain or even capital loss).

Generally, there should be no Russian tax on gains from sale or other disposal of the Notes

imposed on Non-Resident Noteholder—Legal Entity (as defined in "*Tax Considerations – Russian Federation*"). There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations), where proceeds from sale or other disposal of the Notes are received from a source within Russia by a Non-Resident Noteholder—Legal Entity. The uncertainty is driven by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Consequently, there is a risk that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20% (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

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

The imposition or possibility of imposition of this withholding tax, as applicable, under such circumstances could adversely affect the value of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in TFB's own or TFB's competitors' operating results, adverse business developments, changes to the regulatory environment in which the TFB operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors. Any such disruptions may harm Noteholders. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the market price of the Notes without regard to TFB's and/or the Group's results of operations, prospects or financial condition.

Credit ratings may not reflect all risks of an investment in the Notes

One or more independent credit rating agencies may assign credit ratings to the Notes or TFB which may not, however, reflect the potential impact of all the risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. In addition, real or anticipated changes in TFB's credit ratings will generally affect any trading market for, or trading value of, the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on the scheduled maturity date or paid on any particular date before the final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or TFB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The reliability of each rating should be analysed independently from any other rating. The impact of other activities that TFB undertakes, including changes in its dividend rate and, particularly, increases in its debt levels could also result in future declines in its credit ratings. In the event that a credit rating assigned to the Notes or TFB is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or

credit enhancement with respect to the Notes, and the market value of the Notes is likely to be adversely affected.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (ii) the rating is provided by a credit rating agency not established in the EEA, which is certified under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating.

Changes to the credit rating of the Russian Federation may adversely affect the Notes' trading price

Credit ratings of the Russian Federation have been subject to review and downgrades recently (see "*The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on TFB's and/or the Group's business, liquidity and financial condition - Dislocation of global and Russian banking sectors*"). Any changes in the credit ratings of the Russian Federation could adversely affect the trading price of the Notes. A change in the credit rating of one or more other Russian corporate borrowers or banks could also adversely affect the trading price of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Change of law

The provisions of the Loan Agreement, the Trust Deed, the Agency Agreement, the Account Bank Agreement (each as defined in the Trust Deed) and the Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to law or court practice in either jurisdiction after the date of this Prospectus.

Difficulty of enforcing foreign court judgments or arbitral awards

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

be further tested in the courts. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. It may also be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and political resistance to the enforcement of awards against Russian companies in favour of foreign investors.

The Noteholders are required to rely and comply with the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes will be represented by the Global Note which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Owners of book-entry interests will not be considered owners or holders of Notes unless and until Definitive Notes are issued in exchange for book-entry interests. Instead, Euroclear or Clearstream, Luxembourg, or their nominees, will be the sole legal holders of the Notes. Except in the circumstances described in the Global Note, the Noteholders will not be entitled to receive Definitive Notes and Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Note, the Noteholders will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made as described in "*Summary of the Provisions Relating to the Notes in Global Form*". A holder of a beneficial interest in the Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. None of the Issuer, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg, or to owners of book-entry interests.

Owners of book-entry interests will not have the direct right to act upon the solicitations for consents or requests for waivers or other actions from holders of the Notes, including enforcement of security for the Notes. Instead, Noteholders who own a book-entry interest will be reliant on the nominee for the common depositary (as registered holder of the Notes) to act on their instructions and/or will be permitted to act directly only to the extent such holders have received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurances that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action on a timely basis.

Modification, Waivers and Substitution

The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders which did not attend and vote at the relevant meeting and Noteholders which voted in a manner contrary to the majority.

The Conditions of the Notes provide that the Trustee may, subject to the provisions of the Trust Deed, without the consent of Noteholders, agree to: (i) any modification of the Trust Deed, the Notes, the Agency Agreement, the Account Bank Agreement or following the creation of the Security Interests and subject to clause 13.2 of the Trust Deed, the Loan

Agreement which, in the sole opinion of the Trustee, will not be materially prejudicial to the interests of the Noteholders (other than as mentioned in the Trust Deed) or which, in the sole opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest error; or (ii) the waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes, the Trust Deed or the Loan Agreement, or determine without the consent of the Noteholders that any event which would, or might otherwise give rise to a right of acceleration under the Loan Agreement or any Relevant Event (in each case other than any such breach or proposed breach in respect of Reserved Rights) shall not be treated as such, if, in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; or (iii) substitution of the Issuer by any other entity as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed, all as more fully described in Condition 10 (*Meetings of Noteholders; Modification; Waiver; Substitution of the Lender*).

Risks relating to Irish Law

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

Centre of Main Interest

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

Examinership

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

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his

appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

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

The fact that the Issuer was created specifically for the purpose of issuing loan participation notes and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer. If, however, for any reason, an examiner were appointed while any amounts due by the Issuer under any Notes were unpaid, the primary risks to the holders of such Notes would be as follows:

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

Preferred creditors

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

- (i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;
- (ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

- (iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of the creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "**forward-looking**" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Forward-looking statements relate to, without limitation, TFB's plans, objectives, goals, strategies, future operations and performance. These forward-looking statements are characterised by words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or TFB's actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, "*Risk Factors*", "*Business*" and "*Financial Review*" and are inherently based on numerous assumptions regarding, among other things:

- the condition of the Russian economy, including the economy of the Republic of Tatarstan, and the condition of the Russian agricultural, trade and banking sectors;
- TFB's ability to increase or maintain market share for its products and services and control expenses;
- the effects of, and changes in, the policy of the Russian Government and regulations promulgated by the CBR;
- the effects of changes in laws, regulations, taxation or accounting standards or practices and legal proceedings;
- TFB's ability to comply with CBR mandatory economic ratio requirements and continued participation in the system of mandatory insurance of retail bank deposits in Russia;
- any future expansion plans of TFB and the likelihood of such plans being successfully implemented;
- TFB's expansion on its reserve requirements, cost base and margins;
- TFB's ability to manage its loan portfolio and overall asset quality;
- inflation, interest rate and exchange rate fluctuations;
- TFB's ability to meet its funding obligations and develop and maintain additional sources of financing;
- technological changes; and
- TFB's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When reviewing forward-looking statements, the investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which

TFB operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, TFB is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to TFB, or persons acting on TFB's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place reliance on these forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Prospectus contains the Group's Consolidated financial statements for the year ended 31 December 2015 prepared in accordance with IFRS ("**2015 Financial Statements**"), the Group's Consolidated financial statements for the year ended 31 December 2014 prepared in accordance with IFRS ("**2014 Financial Statements**", and together with 2015 Financial Statements, the "**Annual Financial Statements**"), which have been included in this Prospectus beginning on page F-54 and the Group's Interim condensed consolidated financial statements for the six months ended 30 June 2016 (the "**Interim Financial Statements**"), which have been included in this Prospectus beginning on page F-2. The Annual Financial Statements and the Interim Financial Statements are collectively referred to herein as the "**IFRS Financial Statements**".

Independent Auditors

The Annual Financial Statements have been audited by Ernst & Young LLC in accordance with International Standards on Auditing. The Annual Financial Statements, including the audit opinions of Ernst & Young LLC issued in respect thereof, are included in this Prospectus. The Interim Financial Statements included in this Prospectus have been reviewed by Ernst & Young LLC as appears in the review report included herein.

The financial statements of the Issuer as at 31 December 2015 and 2014 and for the years then ended (the "**Issuer's Financial Statements**") have been audited by PricewaterhouseCoopers Chartered Accountants and Statutory Audit Firm, registered at One Spencer Dock, North Wall Quay Dublin 1, Ireland, in accordance with the International Standards on Auditing.

Market Information Derived from Third Parties

Market data used in this Prospectus, including statistics in respect of the Group's market share, has been extracted from official and industry sources and other sources the Group believes to be reliable. This information appears throughout the Prospectus including, without limitation, in the sections headed "*Financial Review*", "*Appendix A—Overview of the Banking Sector and Banking Regulation in the Russian Federation*" and "*Business*", and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, the Group has cited the following governmental sources of market data: the CBR and Rosstat. The Issuer and the Borrower confirm that third party information, including that from the CBR and Rosstat, has been accurately reproduced and that, as far as the Issuer and the Borrower are aware and are able to ascertain from information published by these public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. None of the Issuer, the Borrower, the Group or the Joint Lead Managers accepts liability for the accuracy of any such information or have independently verified such information, and prospective investors are advised to consider such information with caution.

Some of the market data contained in this document has been derived from the official data of Russian Government agencies, including the CBR and Rosstat. The official data published by

Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussions of matters relating to Russia in this Prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian Government may be questionable. See "*Risk Factors— Risks Relating to the Russian Federation — Economic risks — Official data published by Russian agencies may be unreliable*".

Currency

In this Prospectus, the following currency terms are used:

- "U.S.\$", "USD" or "U.S. Dollar" means the lawful currency of the United States;
- "RUB" or "Rouble" means the lawful currency of the Russian Federation; and
- "EUR" or "Euro" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended from time to time.

Exchange Rates

The Rouble has been selected as the presentation currency for the IFRS Financial Statements, as the majority of the Group's transactions are denominated, measured, or funded in Roubles.

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the CBR in each case for the purchase of Roubles, all expressed per U.S. Dollar. These translations should not be construed as representations that Rouble amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any of the dates mentioned in this Prospectus or at all.

	High	Low	Average ⁽¹⁾	Period End
			(RUB per U.S.\$)	
2016 (up to and including 12 October 2016)	83.59	62.20	67.96	62.20
2015	72.88	49.18	60.96	72.88
2014	67.79	32.66	38.42	56.26

⁽¹⁾ The average of the exchange rates on the last calendar day of each month for the relevant annual period, and on each calendar day for any other period.

Other

In this Prospectus, unless otherwise specified herein, (i) references to the Group's loan portfolio are references to the Group's loans to customers; (ii) references to the Group's gross loan portfolio and gross loans to customers are references to the Group's loan portfolio and the Group's loans to customers, respectively, before allowance for loan impairment; (iii) references to the Group's net loan portfolio and the Group's net loans to customers are references to the Group's loan portfolio and the Group's loans to customers, respectively, after allowance for loan impairment; and (iv) references to "Eurobonds" issued by TFB or the

Group are references to loan participation notes, issued by the Issuer, the proceeds of which were used to fund loans to TFB.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

Alternative Performance Measures

The selected financial data set forth in this Prospectus, in addition to the conventional financial performance measures established by IFRS, contains certain alternative performance measures (such as net interest margin, cost/income ratio, non-performing loans ratio etc.) ("**APMs**") that are presented for purposes of a better understanding of the trend of operations and the financial condition and provides a more meaningful depiction for investors of the underlying fundamentals of the Group's business. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

Such measures should, however, not be considered as a substitute for those required by IFRS.

ENFORCEABILITY OF JUDGMENTS IN THE RUSSIAN FEDERATION

The Borrower is a public joint stock company incorporated under the laws of the Russian Federation, and most of its directors, members of the Supervisory Board and executive officers reside in the Russian Federation. In addition, most of its assets and the assets of such persons are located outside of the United States and the United Kingdom.

As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon the Borrower or any of its directors or executive officers named in this Prospectus or to enforce U.S. or English court judgments obtained against the Borrower or its directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the U.S. securities laws or upon English laws. Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may deprive potential investors of effective legal recourse for claims related to their investment in the Notes. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may significantly delay the enforcement of such judgment.

The Loan Agreement will be governed by English law and will provide for any claim, dispute or difference of whatever nature arising out of or in connection with the Loan Agreement to be referred to and finally settled by arbitration in accordance with the rules of the LCIA (formerly known as the London Court of International Arbitration). The seat of any such arbitration will be London, England. The Russian Federation and the United Kingdom are parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to the qualifications provided for in the convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds

for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

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

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

TFB OVERVIEW

Overview

TFB, which accounts for substantially all of the Group's assets and liabilities, is a bank organised and existing as a public joint stock company under the laws of the Russian Federation. TFB's registered and principal office is located at 43/2, Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russian Federation, and its telephone number is +7 843 291 99 99.

TFB is a universal bank that provides a full range of banking services to both corporate (including SMEs) and retail customers, with a particular focus on the Republic of Tatarstan. TFB's principal activities comprise the following:

- *Corporate banking* – a wide range of services provided to large and medium-sized corporate customers (SMEs), including different types of lending, deposit taking, customer accounts, transactional services, international settlements, trade finance, payroll services and corporate plastic cards,
- *Retail banking* – banking services provided to individuals, including retail lending (namely, consumer loans, mortgage loans and auto loans), deposit taking, payment and account services, debit and credit cards, as well as other retail banking services, and
- *Investment banking* – a variety of products and services, including transactions in securities and financial instruments, broker/dealer services, currency trading, asset management services, custody services, correspondent banking and interbank lending. See "*Banking Services and Activities*" below.

As at the date of this Prospectus, TFB serviced its customers through a network consisting of the head office in Kazan, 5 regional branches and 88 other outlets. This network is located primarily in the Republic of Tatarstan but also extends to 15 other constituents of the Russian Federation, including Moscow, St.Petersburg, Nizhny Novgorod Region, Chuvashia Republic and Bashkortostan Republic. See "*Network Coverage*" below.

According to *Banki.ru*, a Russian on-line analytical resource, as of July 2016, TFB was ranked the second largest private bank in the Republic of Tatarstan in terms of net assets, loan portfolio, retail deposits and investments in shares and the 44th largest bank in Russia in terms of net assets, as calculated under Russian accounting standards. According to *kuap.ru*, a Russian on-line analytical resource, as of July 2016, TFB was ranked as the 43th largest Russian bank in terms of total assets, the 37th largest Russian bank in terms of loan portfolio and the 46th largest Russian bank in terms of securities portfolio.

A substantial portion of TFB's business is located in, or relates to, the Republic of Tatarstan, which has historically been one of the key and most developed (both economically and socially) regions of the Russian Federation, one of the largest regional contributors to the national GDP, with growth levels of the regional domestic product exceeding the national GDP growth, and one of the leading regions in terms of key macroeconomic indicators. Tatarstan is also rich in natural resources, diversified industry and high quality human capital. The industrial sector comprises large enterprises in the oil refining and chemical sectors, as well as national car makers.

As of 1 June 2016, TFB accounted for 11.5 per cent. of retail customer accounts, 4.7 per cent. of corporate customer accounts, 4.4 per cent. of retail loans and 8.7 per cent. of corporate loans in each case in the Republic of Tatarstan.

As of the date of this Prospectus, the Republic of Tatarstan and Mr. Robert Musin, who is one of the ultimate beneficial owners of LLC Novaya Neftekhimiya and OJSC Mortgage Agency of the Republic of Tatarstan and indirect shareholder of TFB (see – "*Shareholders*"), jointly hold more than 50 per cent. of TFB's shares. Both beneficial owners have maintained their interest in TFB since the date of its incorporation and have historically provided support to TFB, including through recent capital injections, namely RUB 4 billion subordinated deposit placed by with TFB and the expected effect of the placement of additional shares with the aggregate nominal amount of RUB 2.4 billion in July 2016 (See "*Business – Strategy – Improve its capital position*") which strengthened and is expected to strengthen TFB's capital position further. In addition, the most recent share capital increase not only raised TFB's tier 1 capital, but, according to TFB, it is also expected to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent. which evidences the strategic importance of TFB and its business for Tatarstan and the Republic's willingness to continue business cooperation. Further, TFB's cooperation with the Republican government is enhanced thorough Mr. Robert Musin, a former Minister of Finance of the Republic of Tatarstan and former Chairman of the Board of Directors of AK BARS, who currently serves as the Chairman of the Management Board of TFB and is fully involved in its day-to-day management and operations and Mr. Ildar Khalikov, the Prime Minister of the Republic of Tatarstan, who chairs the Board of Directors. In light of the above and based on the positive past experience, TFB's management believes that the current beneficial owners are committed to value creation and would provide the necessary support to TFB in the future to the extent required.

TFB operates under a number of licences received from the CBR covering a full range of banking activities. In particular, TFB's licences allow it to conduct banking operations in Roubles and foreign currencies, to accept deposits from individuals in Roubles and foreign currencies and to deposit and trade in precious metals. TFB also holds licences for acting as a broker, dealer, custodian and securities manager in the Russian securities market. TFB has been a member of the system of mandatory insurance of retail deposits in the Russian Federation since October 2004.

TFB has been a principal member of VISATM and MasterCardTM payment systems since 2007 and 2009, respectively. In 2014, TFB became a member of the First National Payment Card System and, since 2016, TFB has been a member of MIR payment system. TFB is also a member of the Association of Russian Banks, the Association of Tatarstan Banks, the Moscow Interbank Currency Exchange (MICEX), the National Fund Association (NFA) and the Russian National Association of S.W.I.F.T., as well as the International Interbank Financial Telecommunication System of S.W.I.F.T., Reuters Dealing System, the Chamber of Commerce and Industry of the Russian Federation and the Chamber of Commerce and Industry of the Republic of Tatarstan.

As at 30 June 2016, the Group's total assets, net loans to customers and total customer accounts amounted to RUB 199,686 million, RUB 129,414 million and RUB 136,310 million, respectively, and it had total equity attributable to equity holders of TFB of RUB 4,496 million. For a detailed discussion and analysis of the Group's financial condition and results of operations for the periods under review, see "*Financial Review*".

As of the date of this Prospectus, TFB had long-term foreign and domestic currency senior unsecured debt ratings and long-term foreign and domestic currency deposit ratings of "B3" (with negative outlooks), short-term foreign and domestic currency deposit ratings of "NP" from Moody's. TFB also had long-term and short-term local and foreign currency credit ratings of "B" (with negative outlooks for long-term ratings) and Russia national scale long-term credit rating of "ruBBB+" from S&P.

Apart from TFB, the Group comprises eight subsidiaries of TFB which are described in more detail in "*Subsidiaries*".

Strategy

In March 2013, TFB's Board of Directors approved a mid-term strategy for 2013-2015 which was primarily focused on increasing the share of high-margin products and enhancing operational efficiency.

In 2015, TFB's Board of Directors approved the current strategy for 2016-2018 (the "**Strategy**"), according to which the key objectives of TFB include:

- development of TFB as a universal bank focused on offering traditional banking products and services as well as developing on-line banking solutions;
- maintaining a strong business profile by increasing market share of target customer segments, including the retail and SME lines of business;
- maintaining adequate levels of liquidity, funding and capital base; and
- increasing efficiency and reducing operational costs.

In order to achieve these goals, TFB intends to undertake the following steps:

Strengthen business profile

To maintain competitive in a rapidly changing banking environment TFB seeks to both further strengthening its profile as a systemically important bank for the Republic of Tatarstan and raising its market position with a view to become a top-40 bank in Russia. To that end, TFB is aiming at strengthening its asset and capital base and increasing its market share in the target client segments. In achieving that, TFB anticipates that, by 2018, its market share in retail segment in the Republic of Tatarstan will increase while the corporate market share in Tatarstan will remain relatively stable.

Increase retail banking

As part of the Strategy, TFB intends to increase the share of its retail banking which is generally associated with higher-margin products, while maintaining high asset quality and moderate levels of risk. To achieve this goal TFB intends to (a) increase the volume of consumer lending and credit card lending while focusing on the customers with sound financial standing and reliable credit history; (b) continue participating in state programmes for subsidised lending; (c) increase the share of high-margin fee and commission products; and (d) leveraging the potential of remote banking system and developing it as an efficient and cost-effective tool for distributing banking products.

Grow SME banking

TFB's management considers SME banking as one of its key business segments. To increase the share of its SME banking segment, TFB intends primarily to (a) increase SME loan and deposit portfolios, (b) increase fee and commission income from settlement services and bank guarantees and (c) increase the number of SME current accounts and balances thereon. Further, TFB expects to both retain the existing SME client base and attract new SME customers, both in and outside Tatarstan, by offering banking products on attractive terms and ensuring high-quality service. To achieve this, TFB will continue promoting its own SME products, participating in state and regional programmes for SME support and collaborating with SME Bank, a subsidiary of a state-owned corporation Joint-stock company "Russian Small and Medium Business Corporation" ("**Russian MSB Corporation**") specialising in supporting small businesses in Russia.

Diversify funding base

At present, TFB is reliant on funding from its customers, and, in particular, its retail clients. As at 30 June 2016, the Group's customer accounts amounted to RUB 136,309.7 million, or 70 per cent. of the Group's total liabilities, of which the Group's individual customer accounts comprised RUB 104,170.7 million, or 76.4 per cent. of the Group's customer accounts. In order to support the growth of its banking operations, in general, and with the view to reduce the degree of reliance on and exposure to customer accounts and individual customer accounts in particular, TFB plans to diversify its funding base in terms of capital and funding markets, types of instruments, currencies and maturity. In the future, subject to market conditions, TFB intends to continue to access the Russian domestic and international capital markets, and attract bilateral and syndicated loan facilities. TFB expects that such diversification will allow it to maintain a more stable funding base and reduce its exposure to liquidity risks.

Improve its capital position

As at 1 September 2016, TFB's RAS-based regulatory CBR capital adequacy ratios, namely, common equity tier 1 capital adequacy ratio (N1.1), tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) were 6.35 per cent., 7.81 per cent. and 12.39 per cent., respectively (as compared to the minimum CBR requirement of 4.5 per cent., 6.0 per cent. and 8.0 per cent., respectively).

TFB is required to fully comply with the mandatory ratios and other requirements established by the CBR and maintain certain financial ratios pursuant to the loan agreement relating to the 2017 Notes. As at 30 June 2016 and 31 December 2015, TFB was not compliant with the requirements set forth in the relevant loan agreement, which constituted a formal default under the 2017 Notes (See "*Risk Factors –Risks Relating to TFB's Business and Industry– Violation of covenants in documentation related to the outstanding Eurobonds could lead to materially adverse consequences for its future operations*").

TFB would seek to maintain a robust capital position by regular capital injections both in the form of an increase of the share capital and attracting subordinated debt, both on a public and private market, to be included in TFB's capital base.

The Group and TFB in particular are also focused on improving its capital position by enhancing both the Group's Tier 1 and total capital adequacy ratios (as calculated under the

Basel Capital Accord) which, as at 30 June 2016, amounted to 6.4 per cent. and 12.4 per cent., respectively.

To that end, in August 2014, the Issuer issued perpetual loan participation notes in the aggregate principal amount of U.S.\$ 60 million and an interest rate of 12.5 per cent. per annum. The relevant proceeds were on-lent to TFB under a loan agreement and were included into the Group's Tier 1 capital under IFRS.

In January 2016, in the context of the implementation of the state programme to increase the capitalisation of the Russian banking system, the DIA entered into subordinated loan agreements with TFB and transferred five series of OFZ with the aggregate principal amount of RUB 1,416.6 million to TFB. The maturity dates for the relevant subordinated loans fall between 2025 and 2034. The relevant OFZ received from the DIA are not recognised in the Group's statement of financial position as at 30 June 2016 as set out in the Interim Financial Statements. As at 30 June 2016, TFB included subordinated loans received from the DIA in TFB's Tier 2 capital (as calculated under the Basel Capital Accord).

Further, on 18 July 2016, PJSC "Kazanorgsintez", a company owned by the Republic of Tatarstan, placed a RUB 4 billion subordinated deposit with TFB. The contractual maturity of the deposit is 8 years from the date of placement. On 29 July 2016, the shareholders of TFB approved the additional issuance of 300 million of ordinary shares with the aggregate nominal amount of RUB 3 billion. TFB believes that the shares with the aggregate nominal amount of RUB 2.4 billion will be issued by the effective conversion of the deposit previously placed with TFB into the newly issued shares, with the rest of the shares being paid in cash. This share capital increase is expected not only to raise TFB's tier 1 capital, but, according to TFB, also to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent.

TFB believes that robust capital will decrease TFB's exposure to any future changes in banking regulation and other challenges inherent in banking business, while would serve as a required support in increasing the share of retail and SME segments.

Ensure business optimisation and increase operational efficiency

In pursuit of optimising its operating expenses, TFB's does not plan an active network expansion and is more focused on maintaining the number of points of sale at their existing level while ensuring greater efficiency thereof and increasing the sales of products through Internet banking and other remote channels. In addition, as an integral part of its Strategy, TFB strives to raise employee and labour efficiency by increasing the number of products offered by each employee in both corporate and retail segments.

Further, TFB intends to improve its operational efficiency by further strengthening its internal management and project management systems and controls. In addition, TFB continuously seeks to enhance its IT systems and their security which, in turn, is expected to help support the planned growth of its business in light of TFB's strategy to increase the share of retail and SME segments, as well as to allow TFB to adapt to the changing needs and objectives of its business in order to provide adequate support to its internal management and reporting systems and ensure that its products and services are processed in a cost effective manner.

The management of TFB expects that the implementation of the above steps would allow TFB to ensure profitability.

Market Position and Competitive Strengths

According to the CBR, as at 1 August 2016, 669 banks operated in Russia.

Due to the large number of banks in Russia, TFB faces competition in all regions and locations in which it operates and in which it intends to expand its banking operations. TFB believes that, in terms of both corporate and retail lending, its primary competitors in the Republic of Tatarstan are Sberbank of Russia and PJSC AK BARS Bank ("**AK BARS**"). In retail segment TFB also competes with VTB24, Home Credit and Finance Bank, Russian Standard Bank, Tinkoff Credit Systems and Bank Vostochniy. In corporate banking, TFB's competitors also include Alfa-Bank, Ural Bank for Reconstruction and Development, JSC "Russian Bank for Small and Medium Enterprises Support" ("**SME Bank**"), Promsvyazbank, Russian Agricultural Bank and Gazprombank.

TFB believes that it has a number of competitive advantages, including:

The second largest bank in one of the most developed regions of Russia

The Republic of Tatarstan has historically been one of the key and most developed (both economically and socially) regions of the Russian Federation. According to the Strategy of Social and Economic Development of the Republic of Tatarstan until 2030 (the "**Development Strategy**") and research conducted in preparation thereof, in 2014, Tatarstan was ranked 7th Russian region by volume of gross regional product, 5th Russian region by the volume of capital investments and manufacture production and 3^d Russian region by volume of agriculture production. Further, according to the Development Strategy, from 2004 to 2013 the gross regional product per capita of Tatarstan was largely growing and exceeded the gross national product per capita during the referenced years. TFB believes that this trend has also maintained following 2013.

According to Banki.ru, a Russian on-line analytical resource, as of July 2016, TFB was ranked the second largest private bank in the Republic of Tatarstan in terms of net assets, loan portfolio, retail deposits and investments in shares and the 44th largest bank in Russia in terms of net assets, as calculated under Russian accounting standards.

TFB's management believes that a robust social and economic profile of the Republic of Tatarstan underpins the strength and reliability of TFB's client base which gives competitive advantage to TFB as compared to its peers operating in less developed regions of Russia. Further, TFB believes that its position of a reliable and stable bank is confirmed by its strong track record and more than 20 years of experience in the Russian market. TFB's management believes that TFB's market position, reputation and brand recognition is the key element of TFB's success in retaining existing clients, growing its customer base through attracting new clients and achieving funding needs.

A stable bank showing consistent growth

TFB's management believes TFB is a stable Russian bank showing consistent growth across the customer base and key balance sheet metrics. As such, TFB's client base grew from

891,000 clients as at 31 December 2014 to 953,000 clients as at 31 December 2015 and 969,000 clients as at 30 June 2016.

The Group's net loan portfolio increased from RUB 96,724 million as at 31 December 2014 to RUB 121,282 million as at 31 December 2015 and further to RUB 129,414 million as at 30 June 2016.

The Group's customer accounts, which is the key source of funding, grew from RUB 90,160 million as at 31 December 2014 to RUB 111,976 million as at 31 December 2015 and RUB 136,310 million as at 30 June 2016.

A wide product line and a comprehensive range of banking services

TFB is a universal commercial bank that offers a broad range of high-quality and hi-tech bank products and services to its clients, improving traditional products and services and introducing new ones. Broad product range allows TFB to target wide range of customers which gives TFB a competitive advantage over banks focusing on a particular type of product or group of clients. In addition diversified business approach makes TFB less exposed to the inherent customer and product risks allowing to switch the focus between products and segments depending on the environment and business needs.

A well-developed distribution network, broad customer base and well-established client relationships

TFB has a well-developed distribution network predominantly focused on the Republic of Tatarstan. TFB's wide distribution network extending to 16 regions of Russia allows TFB to cover a large number of corporate and retail clients and maintain close relationships therewith which enables TFB better understand their needs and address them promptly and properly.

As at 30 June 2016, TFB served approximately 37,000 corporate clients, 35,000 SME clients and around 525,000 retail customers. TFB has strong working relationships with leading companies in the Republic of Tatarstan across key sectors of the economy such as trade, finance, agriculture, food industry, real estate, construction and manufacturing. TFB provides broad support to the development of SME lending both under its own programmes and under the programmes of SME Bank. TFB's broad customer base allows it to increase its lending operations and enhance its business in the future.

Due to the significant role of agriculture in Tatarstan's economy, TFB has been actively involved in government programmes to support agricultural producers. This degree of engagement has enabled TFB to develop considerable expertise in lending to agricultural producers. TFB has built a strong customer base of agricultural clients that allows TFB to offer these clients various products on competitive terms.

Committed shareholders willing to provide support

As of the date of this Prospectus, the Republic of Tatarstan and Mr. Robert Musin, who is one of the ultimate beneficial owners of LLC Novaya Neftekhimiya and OJSC Mortgage Agency of the Republic of Tatarstan and indirect shareholder of TFB (see – "*Shareholders*"), jointly hold more than 50 per cent. of TFB's shares. Both beneficial owners have maintained their interest in TFB since the date of its incorporation and have historically provided support to TFB, including through recent capital injections, namely RUB 4 billion subordinated deposit

placed by with TFB and the expected effect of the placement of additional shares with the aggregate nominal amount of RUB 2.4 billion in July 2016 (See "*Strategy – Improve its capital position*") which strengthened and is expected to strengthen TFB's capital position further. In addition, the most recent share capital increase is expected not only to raise TFB's tier 1 capital, but, according to TFB, also to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent. which evidences the strategic importance of TFB and its business for Tatarstan and the Republic's willingness to continue business cooperation. Further, TFB's cooperation with the Republican government is enhanced thorough Mr. Robert Musin, a former Minister of Finance of the Republic of Tatarstan and former Chairman of the Board of Directors of AK BARS, who currently serves as the Chairman of the Management Board of TFB and is fully involved in its day-to-day management and operations and Mr. Ildar Khalikov, the Prime Minister of the Republic of Tatarstan, who chairs the Board of Directors. In light of the above and based on the positive past experience, TFB's management believes that the current beneficial owners are committed to value creation and would provide the necessary support to TFB in the future to the extent required.

DESCRIPTION OF THE TRANSACTION

The following summary description should be read in conjunction with, and is qualified in its entirety by, "Terms and Conditions of the Notes" and "The Loan Agreement" which are set out elsewhere in this Prospectus.

The transaction will be structured in the form of a Loan by the Issuer to TFB. The Issuer will issue the Notes, which will be limited recourse secured loan participation notes of the Issuer for the sole purpose of funding the Loan. The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed.

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

As provided in the Trust Deed, the Issuer will charge by way of first fixed charge in favour of the Trustee for the benefit of holders of the Notes as continuing security for its payment obligations in respect of the Notes (the "**Charge**"):

- (b) all principal, interest and other amounts now or hereafter payable by TFB to the Issuer as lender under the Loan Agreement;
- (c) the right to receive all sums that may be or become payable by TFB under any claim, award or judgment relating to the Loan Agreement; and
- (d) all the rights, title and interest in and to all sums of money now or in the future held on deposit in an account with The Bank of New York Mellon, London Branch in the name of the Issuer (the "**Account**") specified in the Loan Agreement and the debts represented thereby (including interest from time to time earned on the Account, if any),

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

In addition, the Issuer with full title guarantee will assign absolutely to the Trustee for the benefit of the Trustee and the holders of the Notes all the rights, title, interest and benefits, both present and future, that have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, all monies payable to the Issuer and any claims, awards and judgments in favour of the Issuer under the Loan Agreement and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of TFB thereunder) other than any rights, title, interests and benefits which are subject to the Charge and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement as set out in the relevant provisions of the Trust Deed (the "**Assignment**").

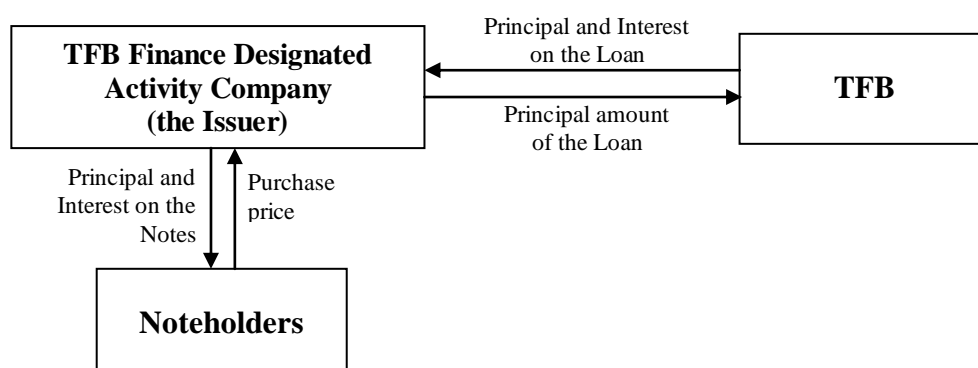
The Issuer will covenant not to agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in

accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement (subject to being indemnified and/or secured to its satisfaction by TFB), save as otherwise provided in the Trust Deed and except in relation to the Reserved Rights. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 of the Terms and Conditions relating to the Notes and shall be binding on the Noteholders.

The Charge and Assignment under the Trust Deed will become enforceable upon the occurrence of a Relevant Event (as defined in the Trust Deed).

The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to Noteholders. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received by or on behalf of the Issuer or the Trustee from the assets securing the Notes. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

Set out below is a diagrammatic representation of the structure:



OVERVIEW OF THE OFFERING

Issuer	TFB Finance Designated Activity Company.
TFB	Public Joint Stock Company "Tatfondbank" with its registered office at 43/2 Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russian Federation.
Notes Offered	U.S.\$ 60,000,000 8.5 per cent. loan participation notes due 2019.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Listing Agent	Arthur Cox Listing Services Limited
Issue Price of Notes	100 per cent. of the principal amount of Notes.
Issue Date of the Notes	9 November 2016
Maturity Date	12 November 2019
Interest	On each Interest Payment Date, being 12 May and 12 November in each year commencing on 12 May 2017 and ending on 12 November 2019, provided that for the avoidance of doubt, no interest payment will be due on 12 November 2016, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 8.5 per cent. per annum (as set out in Clause 4 of the Loan Agreement).
Status	The Notes are limited recourse secured obligations of the Issuer. The Notes will constitute the obligation of the Issuer to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights, all as more fully described in " <i>Terms and Conditions of the Notes – Status and Limited Recourse</i> ".
Security	<p>The Issuer's payment obligations under the Notes will be secured on the issue date of the Notes by a first fixed charge on:</p> <ul style="list-style-type: none">• all principal, interest and other amounts now or hereafter payable by the Borrower to the Issuer under

the Loan Agreement;

- the right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money now or in the future held on deposit in the Account and the debts represented thereby, including interest from time to time earned on the Account.

Assignment of Rights

On the issue date of the Notes the Issuer with full title guarantee will assign absolutely its rights under the Loan Agreement (save for those rights charged or excluded as described above) to the Trustee.

Form

The Notes will be issued in fully registered form in the denominations of U.S.\$ 200,000 and higher integral multiples of U.S.\$ 1,000 without interest coupons attached. The Notes will be represented by the Global Certificate registered in the name of a nominee which will be exchangeable for Definitive Certificates in the limited circumstances described under "*Summary of the Provisions Relating to the Notes in Global Form*".

Initial Delivery of Notes

On or before the issue date of the Notes, the Global Certificate will be deposited with a depositary of Euroclear and Clearstream Luxembourg.

Change of Control Put Option

Upon the occurrence of a Change of Control Put Event (i.e., the Republic of Tatarstan ceasing to be the beneficial owner, directly or indirectly, of more than 25 per cent. plus one share of the issued and outstanding voting share capital of TFB) the Noteholders will have right to require the Issuer to redeem such Note at its principal amount together with and accrued interest (if any) in accordance with the procedures set out in the Terms and Conditions.

Mandatory Redemption

The Issuer is required to redeem the Notes in whole, but not in part, at 100 per cent. of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if the Loan should become repayable and be repaid pursuant to the Loan Agreement prior to the Maturity Date, including in the event the Issuer is required to pay additional amounts on account of withholding taxes or in the event that it is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement.

Relevant Events

In the case of certain events in relation to the Issuer (as defined in the Trust Deed), the Trustee may, subject as

provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

Withholding Tax

All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or the Russian Federation or any political subdivision or any authority thereof or therein having the power to tax, other than as required by law. In such event, the sum payable by TFB to the Issuer will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for sums equivalent to the sums received from TFB under the Loan Agreement.

Negative Pledge

The Issuer will have the benefit of a negative pledge granted by TFB, as fully described in the Loan Agreement.

Events of Default

In the case of an Event of Default (as defined in the Loan Agreement), the Trustee may, subject as provided in the Trust Deed, declare all amounts payable under the Loan Agreement by TFB to be due and payable.

Use of Proceeds

The proceeds from the issue of the Notes will be used by the Issuer to finance the Loan and TFB will apply the net proceeds of the Loan for general corporate purposes and refinancing certain indebtedness. See "*Use of Proceeds*".

Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single series with such existing Notes.

Ratings

The Notes are expected to be rated 'B3' by Moody's and 'B' by S&P.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. ***A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.*** Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that

the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on the Main Securities Market.

Governing Law

The Notes and the Loan will be governed by English law.

Selling Restrictions

The Notes are subject to selling restrictions in the United Kingdom, the United States, Ireland, the Russian Federation, Hong Kong, Singapore and other jurisdictions where the Notes may be offered, sold or delivered or this Prospectus may be distributed. See "*Subscription and Sale*".

Security Codes

ISIN: XS1512658805

Common Code: 151265880

USE OF PROCEEDS

The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Loan to TFB. The proceeds from the Loan will be used by TFB for general corporate purposes and refinancing of certain indebtedness. The fees, commissions and expenses relating to the Notes will not be paid from the proceeds of the issue of the Notes and will be paid by TFB in advance of the issue date.

INCORPORATION BY REFERENCE

The Issuer's Financial Statements together with the audit reports thereon, which have been filed with the Central Bank of Ireland and may be found at the following website: http://www.ise.ie/debt_documents/Annual%20Financial%20Statement_e5f7161b-c475-45f3-8a3a-a3c151327a24.PDF, [http://www.ise.ie/debt_documents/TFB%20Financials%20-%2031.12.2014\(22331289_1\)_e2ce121a-0cbd-404a-8750-725f919f1f89.PDF](http://www.ise.ie/debt_documents/TFB%20Financials%20-%2031.12.2014(22331289_1)_e2ce121a-0cbd-404a-8750-725f919f1f89.PDF), and are incorporated in, and form part of, this Prospectus.

Copies of Issuer's Financial Statements may be obtained, free of charge, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer.

CAPITALISATION OF THE GROUP

The following unaudited financial information sets forth information on the Group's total equity and liabilities as at 30 June 2016, on a historical basis. Prospective investors should read this table together with sections entitled "*Use of Proceeds*", "*Selected Consolidated Financial Information*", "*Financial Review*" and the IFRS Financial Statements included in this Prospectus.

The financial information presented in this section as at 30 June 2016 has been extracted, without material adjustment, from unaudited Interim Financial Statements.

The table below sets out the Group's consolidated total liabilities and equity as at 30 June 2016. This information should be read in conjunction with "*Financial Review*" and the IFRS Financial Statements included elsewhere in this Prospectus.

	As at 30 June
	2016
	(in thousands of Roubles)
	(unaudited)
LIABILITIES	
Due to the CBR	14,572,327
Due to banks	11,064,845
Customer accounts	136,309,688
Debt securities in issue	15,776,244
Eurobonds issued	974,489
Amounts due to the Deposit Insurance Agency	3,108,644
Other borrowings	—
Other liabilities	631,360
Deferred tax liabilities	869,861
Subordinated borrowings and Eurobonds	9,865,828
Obligation to repurchase interest in a subsidiary	114,153
Non-controlling interests	1,757,105
TOTAL LIABILITIES	195,044,544
EQUITY	
Share capital	14,934,618
Revaluation reserve for investments available-for-sale	98,297
Revaluation reserve for buildings	189,767
Accumulated deficit	(10,726,216)
Total equity attributable to the equity holders of the bank	4,496,466
Non-controlling interests	144,889
TOTAL EQUITY	4,641,355
TOTAL LIABILITIES AND EQUITY	199,685,899

On 18 July 2016, PJSC "Kazanorgsintez", a company owned by the Republic of Tatarstan, placed a RUB 4 billion subordinated deposit with TFB. The contractual maturity of the deposit is 8 years from the date of placement.

On 21 July and 28 July 2016, JSC "Tatspiritprom" acquired in total 250 million registered ordinary shares in TFB from TFB's current shareholders for RUB 10 per share in the

aggregate amount of RUB 2,500,000 thousand (which is equal to 17.33 per cent. of TFB's share capital). JSC "Tatspirtprom" is fully-owned by JSC "Sviazinvestneftekhim", the sole shareholder of which is the Republic of Tatarstan. On 22 July and 29 July 2016, TFB's shareholders used the full amount of funds received from the sale of the shares to increase TFB's tier 1 capital under the agreement to increase net assets.

On 29 July 2016, the shareholders of TFB approved the additional issuance of 300 million of ordinary shares with the aggregate nominal amount of RUB 3 billion. TFB believes that the shares with the aggregate nominal amount of RUB 2.4 billion will be issued by the effective conversion of the deposit previously placed with TFB into the newly issued shares, with the rest of the shares being paid in cash.

Save as disclosed above, there has been no material change in the capitalisation of the Group since 30 June 2016.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present the Group's selected consolidated financial information which has been extracted, without adjustments, but subject to rounding, from, and should be read in conjunction with, the IFRS Financial Statements and notes thereto included elsewhere in this Prospectus, as well as the sections entitled "*Presentation of Financial and Other Information*", "*Capitalisation of the Group*" and "*Financial Review*".

The Group's Consolidated Statement of Financial Position

	As at 30 June	As at 31 December	
	2016	2015	2014
	(in thousands of Roubles)		
	(unaudited)		
Assets			
Cash and cash equivalents	13,333,099	13,579,727	16,412,809
Mandatory cash balances with the CBR	1,704,518	891,824	1,067,447
Due from banks	1,768,513	1,386,992	1,189,970
Financial instruments at fair value through profit or loss:			
- Held by the Group	22,143,948	19,715,034	24,382,225
- Pledged as collateral under sale and repurchase agreements	9,186,764	8,618,303	7,931,456
Securities lent.....	1,475,188	656,365	1,477,238
Loans to customers	129,414,342	121,281,708	96,723,817
Investments available-for-sale:			
- Held by the Group	6,230,867	6,705,716	4,912,886
- Pledged as collateral under sale and repurchase agreements	644,187	3,012,640	-
Investment property	3,877,392	1,172,106	1,492,917
Property and equipment	2,362,686	1,309,606	1,315,168
Deferred tax asset	—	—	286,295
Other assets	7,544,395	3,172,326	3,275,973
Total assets	199,685,899	181,502,347	160,468,201
Liabilities			
Due to the CBR.....	14,572,327	16,264,946	13,004,610
Due to banks	11,064,845	16,283,510	11,938,756
Customer accounts	136,309,688	111,975,885	90,160,326
Debt securities issued	15,776,244	16,014,933	20,400,059
Eurobonds issued	974,489	1,027,256	3,820,534
Amounts due from DIA	3,108,644	—	—
Other borrowings.....	—	99,107	1,195,682
Other liabilities	631,360	457,264	531,670
Deferred tax liabilities.....	869,861	950,119	814,451
Subordinated borrowings and Eurobonds	9,865,828	10,309,218	6,600,369
Obligation to repurchase interest in a subsidiary	114,153	114,153	114,153
Non-controlling interests	1,757,105	1,921,239	1,627,379
Total liabilities	195,044,544	175,417,630	150,207,989
Equity			
Share capital	14,934,618	14,934,618	13,111,618
Revaluation reserve for investments available-for-sale	98,297	(178,158)	(182,700)
Revaluation reserve for buildings.....	189,767	191,914	196,208

	As at 30 June	As at 31 December	
	2016	2015	2014
	<i>(in thousands of Roubles)</i>		
	<i>(unaudited)</i>		
Accumulated deficit	(10,726,216)	(9,030,709)	(3,029,524)
Total equity attributable to the equity holders of the bank	4,496,466	5,917,665	10,095,602
Non-controlling interests	144,889	167,052	164,610
Total equity	4,641,355	6,084,717	10,260,212
Total liabilities and equity	199,685,899	181,502,347	160,468,201

The Group's Consolidated Statement of Comprehensive Income

	As at 30 June	
	2016	2015
	<i>(in thousands of Roubles)</i>	
	<i>(unaudited)</i>	
Interest income	11,692,243	9,252,652
Interest expense	(8,709,901)	(9,107,711)
Net interest income	2,982,342	144,941
Fee and commission income	826,848	755,830
Fee and commission expense	(230,814)	(158,021)
Net fee and commission income	596,034	597,809
Net (losses)/gains from financial instruments at fair value through profit or loss	(398,051)	758,943
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(339,043)	(169,261)
Net (losses)/gains from investments available-for-sale	(240,562)	(19,976)
Net (losses)/gains from investment property	1,966	(20,195)
Other operating income	98,868	28,947
Allowance for impairment	(2,410,578)	(1,957,336)
Impairment of goodwill	(1,846,072)	-
Administrative and other operating expenses	(2,010,065)	(1,637,096)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	164,134	(167,193)
Loss before tax	(3,401,027)	(2,440,417)
Income tax benefit/(expense)	131,209	(142,894)
Loss for the period	(3,269,818)	(2,583,311)
Attributable to:		
- Equity holders of TFB	(3,197,654)	(2,590,497)
- Non-controlling interests	(72,164)	7,186
Other comprehensive income/(loss) attributable to equity holders of TFB		
Investments available for sale, including:		
- Net change in fair value	21,170	(6,732)
- Net change in fair value transferred to profit or loss	324,399	43,011
Income tax effect	(69,114)	(7,255)

	As at 30 June	
	2016	2015
	(in thousands of Roubles) (unaudited)	
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	276,455	29,024
Total comprehensive loss.....	(2,993,363)	(2,554,287)
Attributable to:		
- Equity holders of TFB	(2,921,199)	(2,561,473)
- Non-controlling interests	(72,164)	7,186

	Year ended 31 December	
	2015	2014
	(in thousands of Roubles)	
Interest income	19,885,161	14,226,351
Interest expense	(18,456,139)	(10,536,543)
Net interest income.....	1,429,022	3,689,808
Fee and commission income.....	1,776,762	1,913,913
Fee and commission expense.....	(390,047)	(321,673)
Net fee and commission income	1,386,715	1,592,240
Net (losses) gains from financial instruments at fair value through profit or loss	(108,712)	50,164
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation.....	(306,101)	(512,820)
Net (losses)/gains from investments available-for-sale	673,528	(18,918)
Net (losses)/gains from investment property	(8,754)	414,513
Other operating income.....	85,867	96,104
Allowance for impairment	(6,793,090)	(3,411,822)
Expenses on assignment of claims	—	(367,462)
Administrative and other operating expenses.....	(3,607,628)	(3,821,664)
Expenses from the placement of financial instruments at below-market interest rates	(25,699)	(873,044)
Financial result from the sale of subsidiaries	—	1,562,998
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	(93,870)	138,161
Net gains from the acquisition/disposal of subsidiaries	1,314,574	—
Loss before tax	(6,054,148)	(1,461,742)
Income tax (expense)	(371,006)	5,305
Loss for the period	(6,425,154)	(1,456,437)
Attributable to:		
- Equity holders of TFB	(6,427,596)	(1,454,526)
- Non-controlling interests	2,442	(1,911)
Other comprehensive income/(loss) attributable to equity holders of TFB		
Investments available for sale, including:		
- Net change in fair value	4,927	(134,361)

	Year ended 31 December	
	2015	2014
	<i>(in thousands of Roubles)</i>	
- Net change in fair value transferred to profit or loss	750	(192,243)
Income tax effect	(1,135)	65,322
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	4,542	(261,282)
Other comprehensive income/(loss) attributable to equity holders of TFB, net of tax.....	4,542	(261,282)
Total comprehensive loss.....	(6,420,612)	(1,717,719)
Attributable to:		
- Equity holders of TFB	(6,423,054)	(1,715,808)
- Non-controlling interests	2,442	(1,911)

Selected Financial Ratios and Other Non-IFRS Measures

	As at 30 June	As at 31 December	
	2016	2015	2014
Asset quality			
NPL ratio ⁽¹⁾	3.3%	3.4%	4.3%
NPL coverage ratio ⁽²⁾	68.4%	88.6%	83.9%
Capital adequacy			
Tier 1 capital ratio ⁽³⁾	4.54%	7.13%	7.38%
Basel III ratio ⁽³⁾	8.01%	10.57%	12.14%
Liquidity			
Net loans to customer accounts ratio	94.9%	108.3%	107.3%
Net loans to total assets ratio	64.8%	66.8%	60.3%
Customer accounts to total liabilities and equity ratio	68.3%	61.7%	56.2%
Net interest margin, % ⁽⁴⁾	3.47	0.92	2.92
Cost/income ratio, % ⁽⁵⁾	54.7 ⁽⁶⁾	124.3	71.1

- (1) This measure is an APM. Non-performing loans to customers, or NPLs, are loans that are overdue by more than 90 days.

NPL ratio is calculated as the volume of non-performing loans to customers (loans overdue more than 90 days, before provision for loan impairment) divided by gross loans to customers including reverse repurchase agreements (before provision for loan impairment) as at the end of the period.

- (2) This measure is an APM. NPL coverage ratio is calculated as the provision for loan impairment divided by non-performing loans to customers as at the end of the period.

- (3) See "*Financial Review—Capital—Capital Adequacy*".

- (4) This measure is an APM. Net interest margin is calculated as the net interest income before provision for impairment losses of interest bearing assets divided by average interest-earning assets for the relevant period and, in relation to rates for the year and half year periods, by annualisation through multiplication by 2 in case of the half year results for the period ending 30 June 2016. The average balances for interest-earning

assets are calculated as the average of the beginning and end of period balances, as appropriate.

- (5) This measure is an APM. Cost/income ratio represents administrative and operating expenses divided by operating income consisting of net interest income, net fee and commission income and other operating income.
- (6) As at 30 June 2015, the Group's cost-to-income ratio amounted to 212.1 per cent.

BUSINESS

Overview

TFB, which accounts for substantially all of the Group's assets and liabilities, is a bank organised and existing as a public joint stock company under the laws of the Russian Federation. TFB's registered and principal office is located at 43/2, Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russian Federation, and its telephone number is +7 843 291 99 99.

TFB is a universal bank that provides a full range of banking services to both corporate (including SMEs) and retail customers, with a particular focus on the Republic of Tatarstan. TFB's principal activities comprise the following:

- *Corporate banking* – a wide range of services provided to large and medium-sized corporate customers (SMEs), including different types of lending, deposit taking, customer accounts, transactional services, international settlements, trade finance, payroll services and corporate plastic cards,
- *Retail banking* – banking services provided to individuals, including retail lending (namely, consumer loans, mortgage loans and auto loans), deposit taking, payment and account services, debit and credit cards, as well as other retail banking services, and
- *Investment banking* – a variety of products and services, including transactions in securities and financial instruments, broker/dealer services, currency trading, asset management services, custody services, correspondent banking and interbank lending. See "*Banking Services and Activities*" below.

As at the date of this Prospectus, TFB serviced its customers through a network consisting of the head office in Kazan, 5 regional branches and 88 other outlets. This network is located primarily in the Republic of Tatarstan but also extends to 15 other constituents of the Russian Federation, including Moscow, St.Petersburg, Nizhny Novgorod Region, Chuvashia Republic and Bashkortostan Republic. See "*Network Coverage*" below.

According to *Banki.ru*, a Russian on-line analytical resource, as of July 2016, TFB was ranked the second largest private bank in the Republic of Tatarstan in terms of net assets, loan portfolio, retail deposits and investments in shares and the 44th largest bank in Russia in terms of net assets, as calculated under Russian accounting standards. According to *kuap.ru*, a Russian on-line analytical resource, as of July 2016, TFB was ranked as the 43th largest Russian bank in terms of total assets, the 37th largest Russian bank in terms of loan portfolio and the 46th largest Russian bank in terms of securities portfolio.

A substantial portion of TFB's business is located in, or relates to, the Republic of Tatarstan, which has historically been one of the key and most developed (both economically and socially) regions of the Russian Federation, one of the largest regional contributors to the national GDP, with growth levels of the regional domestic product exceeding the national GDP growth, and one of the leading regions in terms of key macroeconomic indicators. Tatarstan is also rich in natural resources, diversified industry and high quality human capital. The industrial sector comprises large enterprises in the oil refining and chemical sectors, as well as national car makers.

As of 1 June 2016, TFB accounted for 11.5 per cent. of retail customer accounts, 4.7 per cent. of corporate customer accounts, 4.4 per cent. of retail loans and 8.7 per cent. of corporate loans in each case in the Republic of Tatarstan.

As of the date of this Prospectus, the Republic of Tatarstan and Mr. Robert Musin, who is one of the ultimate beneficial owners of LLC Novaya Neftekhimiya and OJSC Mortgage Agency of the Republic of Tatarstan and indirect shareholder of TFB (see – "*Shareholders*"), jointly hold more than 50 per cent. of TFB's shares. Both beneficial owners have maintained their interest in TFB since the date of its incorporation and have historically provided support to TFB, including through recent capital injections, namely RUB 4 billion subordinated deposit placed by with TFB and the expected effect of the placement of additional shares with the aggregate nominal amount of RUB 2.4 billion in July 2016 (See "*Strategy – Improve its capital position*") which strengthened and is expected to strengthen TFB's capital position further. In addition, the most recent share capital increase not only raised TFB's tier 1 capital, but, according to TFB, it is also expected to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent. which evidences the strategic importance of TFB and its business for Tatarstan and the Republic's willingness to continue business cooperation. Further, TFB's cooperation with the Republican government is enhanced thorough Mr. Robert Musin, a former Minister of Finance of the Republic of Tatarstan and former Chairman of the Board of Directors of AK BARS, who currently serves as the Chairman of the Management Board of TFB and is fully involved in its day-to-day management and operations and Mr. Ildar Khalikov, the Prime Minister of the Republic of Tatarstan, who chairs the Board of Directors. In light of the above and based on the positive past experience, TFB's management believes that the current beneficial owners are committed to value creation and would provide the necessary support to TFB in the future to the extent required.

TFB operates under a number of licences received from the CBR covering a full range of banking activities. In particular, TFB's licences allow it to conduct banking operations in Roubles and foreign currencies, to accept deposits from individuals in Roubles and foreign currencies and to deposit and trade in precious metals. TFB also holds licences for acting as a broker, dealer, custodian and securities manager in the Russian securities market. TFB has been a member of the system of mandatory insurance of retail deposits in the Russian Federation since October 2004.

TFB has been a principal member of VISATM and MasterCardTM payment systems since 2007 and 2009, respectively. In 2014, TFB became a member of the First National Payment Card System and, since 2016, TFB has been a member of MIR payment system. TFB is also a member of the Association of Russian Banks, the Association of Tatarstan Banks, the Moscow Interbank Currency Exchange (MICEX), the National Fund Association (NFA) and the Russian National Association of S.W.I.F.T., as well as the International Interbank Financial Telecommunication System of S.W.I.F.T., Reuters Dealing System, the Chamber of Commerce and Industry of the Russian Federation and the Chamber of Commerce and Industry of the Republic of Tatarstan.

As at 30 June 2016, the Group's total assets, net loans to customers and total customer accounts amounted to RUB 199,686 million, RUB 129,414 million and RUB 136,310 million, respectively, and it had total equity attributable to equity holders of TFB of RUB 4,496 million. For a detailed discussion and analysis of the Group's financial condition and results of operations for the periods under review, see "*Financial Review*".

As of the date of this Prospectus, TFB had long-term foreign and domestic currency senior unsecured debt ratings and long-term foreign and domestic currency deposit ratings of "B3" (with negative outlooks), short-term foreign and domestic currency deposit ratings of "NP" from Moody's. TFB also had long-term and short-term local and foreign currency credit ratings of "B" (with negative outlooks for long-term ratings) and Russia national scale long-term credit rating of "ruBBB+" from S&P.

Apart from TFB, the Group comprises eight subsidiaries of TFB which are described in more detail in "*Subsidiaries*".

History

TFB was established as a closed joint stock company in August 1994, and was initially primarily focused on rendering banking services to its shareholders and other related parties. It was registered with the CBR on 24 August 1994 and received banking licence No. 3058 on the same date. In 1995, TFB was reorganised into an open joint stock company and in 1997 changed its legal name to comply with Russian law on joint stock companies.

On 17 October 1997, TFB's licence was extended to cover banking operations in Roubles and foreign currencies, and the CBR granted TFB a licence to accept deposits from individuals in Roubles and foreign currencies. In 1999, the first additional office and the first branch of TFB were opened which commenced the development of TFB's distribution network. In 2000, the FSFM issued licences to TFB enabling it to act as a broker, dealer, custodian and securities manager in the Russian securities market.

In 2000, TFB's shareholders and management reassessed the strategy of TFB and decided to enhance the development of TFB as a market-oriented bank acting on an arm's length basis with its shareholders and other related parties. Accordingly, from 2000, TFB started diversifying its business and steadily increased the volume of operations with unrelated parties. In 2001, TFB issued its first Union Card plastic cards and the launch of MasterCard plastic cards followed in 2002. In 2004, TFB engaged CJSC BDO Consulting, a Russian consulting company, to develop a new strategy in order to decrease the number of related-party transactions, as well as to shift the volume of banking services to unrelated parties and with a view to increase TFB's profit.

From 2000 to 2005, following the adoption of the programme by the Government of the Republic of Tatarstan, TFB was actively involved in the development of agricultural industry in the Republic of Tatarstan. Under the republican programme, the Government of the Republic of Tatarstan deposited RUB 526 million with TFB which, in turn, extended loans to agricultural producers in Tatarstan at an interest rate of 4.0 per cent. per annum for a tenor of up to five years. In addition, the producers were offered a tailored lending product with a tenor of one year. The borrowers to be financed under the programme were selected by TFB in its own discretion on the basis of the assessment of applications submitted by the prospective borrowers. After the completion of the programme, the governmental deposit was converted into additional share capital of TFB which resulted in OJSC Tatagroleasing, which is wholly-owned by the Republic of Tatarstan, becoming a holder of 19.9 per cent. of TFB's shares.

In 2005, TFB continued expanding its distribution network and acquired more than 30 offices located in Tatarstan from a regional bank, LLC Tatagroprombank ("**Tatagroprom**"). Following the completion of the transaction, Tatagroprom transferred to TFB all rights and

obligations in relation to the customers that were previously serviced by Tatagroprom through the purchased offices (being in large part retail clients with deposits placed with Tatagroprom). The relevant agreements were assigned to TFB 'as is' without any modifications to their terms. TFB's product line was also broadened in 2005 following the receipt on 18 April 2005 of a CBR licence allowing TFB to trade precious metals and accept them in deposit.

In 2006, TFB started its expansion outside the Republic of Tatarstan by opening branches in other regions of the Russian Federation such as an office in Cheboksary. Offices were subsequently opened in Perm and Moscow in 2007, in Surgut, St.Petersburg and Novosibirsk in 2008 and in Ufa in 2011.

In 2006, TFB established LLC Investment Company TFB Finance ("**TFB Finance**") for asset management purposes and issued its debut series of credit-linked notes. The issuance involved placement of credit-linked notes with the aggregate principal amount of U.S.\$ 90 million and an interest rate of 9.5 per cent. maturing in 2008 by C.R.R. B.V. the proceeds from which were on-lent to TFB under a loan agreement.

In 2007, the Issuer issued loan participation notes in the aggregate principal amount of U.S.\$ 200 million and an interest rate of 9.5 per cent. maturing in 2010 ("**2010 LPNs**") the proceeds from which were on-lent to TFB under a loan agreement. In 2010, the holders of U.S.\$ 116 million in the aggregate principal amount of the 2010 LPNs exchanged their 2010 LPNs for U.S.\$ 117 million in aggregate principal amount of new loan participation notes with the interest rate of 12.0 per cent. maturing in 2012 ("**2012 LPNs**"). The exchange was accompanied by the placement of additional U.S.\$ 108 million in aggregate principal amount of 2012 LPNs which resulted in the aggregate principal amount of 2012 LPNs issued being U.S.\$ 225 million.

In 2008, TFB acquired 100 per cent. of shares in CJSC TFB Aktiv ("**TFB Aktiv**"), which is engaged in securities trading operations. See "*Subsidiaries*" below for further details. In October 2008, Moody's assigned "B2" credit rating (with stable outlook) to TFB which resulted in TFB's securities being added to the lombard list which is a list of high-quality securities that are accepted by the CBR as collateral for the so-called lombard loans, i.e., short-term loans provided by the CBR to credit institutions to meet their temporary borrowing requirements secured by the pledge of securities. As a result, TFB received a RUB 5.5 billion unsecured loan and a RUB 3 billion secured loan from the CBR.

In 2011 TFB purchased an aggregate of 29.85 per cent. of shares in OJSC Radiotechbank (subsequently renamed PJSC Radiotechbank) ("**Radiotechbank**"), a regional bank operating in the Nizhny Novgorod Region and servicing SME and retail clients, with a view to enhance its presence outside Tatarstan. Radiotechbank focuses on clients operating in the manufacturing, construction, transportation, trade and servicing industries.

As of the date of this Prospectus, TFB's effective control in Radiotechbank was 58.39 per cent., which was achieved through a direct shareholding of 29.85 per cent. of shares and a call option granted by the holders of 28.54 per cent. of shares to purchase the relevant shares. The call option was first granted in 2013 and was subsequently extended in 2016 for a further three years to mature in 2019. As a result, TFB's position as a controlling shareholder of Radiotechbank allows TFB to appoint the majority of Radiotechbank's board of directors and determine the majority of its operational and business decisions. See "*Subsidiaries*" below for further details.

In July 2011, TFB was also included into the ranking of Top 1000 World Banks by The Banker, a British banking publication.

In 2014, to finance the further development of the Group's business, the Issuer issued two series of loan participation notes and on-lent the relevant proceeds to TFB. See "*Financial Review*" for further details.

TFB was appointed as a bankruptcy prevention manager of BTA-Kazan (subsequently renamed PJSC Timer-Bank) in 2014 and AO Bank "Sovetsky" ("**Sovetsky**") in 2016. On 16 March 2016, TFB acquired 99.99 per cent. of shares in Sovetsky. See "*Subsidiaries*" below for further details.

In January 2016, in the context of the implementation of the state programme to increase the capitalisation of the Russian banking system, the DIA entered into subordinated loan agreements with TFB and transferred five series of OFZ with the aggregate principal amount of RUB 1,416.6 million to TFB. The maturity dates for the relevant subordinated loans fall between 2025 and 2034. The relevant OFZ received from the DIA are not recognised in the Group's statement of financial position as at 30 June 2016 as set out in the Interim Financial Statements. As at 30 June 2016, TFB included subordinated loans received from the DIA in TFB's Tier 2 capital (as calculated under the Basel Capital Accord).

Strategy

In March 2013, TFB's Board of Directors approved a mid-term strategy for 2013-2015 which was primarily focused on increasing the share of high-margin products and enhancing operational efficiency.

In 2015, TFB's Board of Directors approved the current strategy for 2016-2018 (the "**Strategy**"), according to which the key objectives of TFB include:

- development of TFB as a universal bank focused on offering traditional banking products and services as well as developing on-line banking solutions;
- maintaining a strong business profile by increasing market share of target customer segments, including the retail and SME lines of business;
- maintaining adequate levels of liquidity, funding and capital base; and
- increasing efficiency and reducing operational costs.

In order to achieve these goals, TFB intends to undertake the following steps:

Strengthen business profile

To maintain competitive in a rapidly changing banking environment TFB seeks to both further strengthening its profile as a systemically important bank for the Republic of Tatarstan and raising its market position with a view to become a top-40 bank in Russia. To that end, TFB is aiming at strengthening its asset and capital base and increasing its market share in the target client segments. In achieving that, TFB anticipates that, by 2018, its market share in retail segment in the Republic of Tatarstan will increase while the corporate market share in Tatarstan will remain relatively stable.

Increase retail banking

As part of the Strategy, TFB intends to increase the share of its retail banking which is generally associated with higher-margin products, while maintaining high asset quality and moderate levels of risk. To achieve this goal TFB intends to (a) increase the volume of consumer lending and credit card lending while focusing on the customers with sound financial standing and reliable credit history; (b) continue participating in state programmes for subsidised lending; (c) increase the share of high-margin fee and commission products; and (d) leveraging the potential of remote banking system and developing it as an efficient and cost-effective tool for distributing banking products.

Grow SME banking

TFB's management considers SME banking as one of its key business segments. To increase the share of its SME banking segment, TFB intends primarily to (a) increase SME loan and deposit portfolios, (b) increase fee and commission income from settlement services and bank guarantees and (c) increase the number of SME current accounts and balances thereon. Further, TFB expects to both retain the existing SME client base and attract new SME customers, both in and outside Tatarstan, by offering banking products on attractive terms and ensuring high-quality service. To achieve this, TFB will continue promoting its own SME products, participating in state and regional programmes for SME support and collaborating with SME Bank, a subsidiary of a state-owned corporation Joint-stock company "Russian Small and Medium Business Corporation" ("**Russian MSB Corporation**") specialising in supporting small businesses in Russia.

Diversify funding base

At present, TFB is reliant on funding from its customers, and, in particular, its retail clients. As at 30 June 2016, the Group's customer accounts amounted to RUB 136,309.7 million, or 70 per cent. of the Group's total liabilities, of which the Group's individual customer accounts comprised RUB 104,170.7 million, or 76.4 per cent. of the Group's customer accounts. In order to support the growth of its banking operations, in general, and with the view to reduce the degree of reliance on and exposure to customer accounts and individual customer accounts in particular, TFB plans to diversify its funding base in terms of capital and funding markets, types of instruments, currencies and maturity. In the future, subject to market conditions, TFB intends to continue to access the Russian domestic and international capital markets, and attract bilateral and syndicated loan facilities. TFB expects that such diversification will allow it to maintain a more stable funding base and reduce its exposure to liquidity risks.

Improve its capital position

As at 1 September 2016, TFB's RAS-based regulatory CBR capital adequacy ratios, namely, common equity tier 1 capital adequacy ratio (N1.1), tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) were 6.35 per cent., 7.81 per cent. and 12.39 per cent., respectively (as compared to the minimum CBR requirement of 4.5 per cent., 6.0 per cent. and 8.0 per cent., respectively).

TFB is required to fully comply with the mandatory ratios and other requirements established by the CBR and maintain certain financial ratios pursuant to the loan agreement relating to the 2017 Notes. As at 30 June 2016 and 31 December 2015, TFB was not compliant with the

requirements set forth in the relevant loan agreement, which constituted a formal default under the 2017 Notes (See "*Risk Factors –Risks Relating to TFB's Business and Industry– Violation of covenants in documentation related to the outstanding Eurobonds could lead to materially adverse consequences for its future operations*").

TFB would seek to maintain a robust capital position by regular capital injections both in the form of an increase of the share capital and attracting subordinated debt, both on a public and private market, to be included in TFB's capital base.

The Group and TFB in particular are also focused on improving its capital position by enhancing both the Group's Tier 1 and total capital adequacy ratios (as calculated under the Basel Capital Accord) which, as at 30 June 2016, amounted to 4.8 per cent. and 8.0 per cent., respectively.

To that end, in August 2014, the Issuer issued perpetual loan participation notes in the aggregate principal amount of U.S.\$ 60 million and an interest rate of 12.5 per cent. per annum. The relevant proceeds were on-lent to TFB under a loan agreement and were included into the Group's Tier 1 capital under IFRS.

In January 2016, in the context of the implementation of the state programme to increase the capitalisation of the Russian banking system, the DIA entered into subordinated loan agreements with TFB and transferred five series of OFZ with the aggregate principal amount of RUB 1,416.6 million to TFB. The maturity dates for the relevant subordinated loans fall between 2025 and 2034. The relevant OFZ received from the DIA are not recognised in the Group's statement of financial position as at 30 June 2016 as set out in the Interim Financial Statements. As at 30 June 2016, TFB included subordinated loans received from the DIA in TFB's Tier 2 capital (as calculated under the Basel Capital Accord).

Further, on 18 July 2016, PJSC "Kazanorgsintez", a company owned by the Republic of Tatarstan, placed a RUB 4 billion subordinated deposit with TFB. The contractual maturity of the deposit is 8 years from the date of placement. On 29 July 2016, the shareholders of TFB approved the additional issuance of 300 million of ordinary shares with the aggregate nominal amount of RUB 3 billion. TFB believes that the shares with the aggregate nominal amount of RUB 2.4 billion will be issued by the effective conversion of the deposit previously placed with TFB into the newly issued shares, with the rest of the shares being paid in cash. This share capital increase is expected not only to raise TFB's tier 1 capital, but, according to TFB, also to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent.

TFB believes that robust capital will decrease TFB's exposure to any future changes in banking regulation and other challenges inherent in banking business, while would serve as a required support in increasing the share of retail and SME segments.

Ensure business optimisation and increase operational efficiency

In pursuit of optimising its operating expenses, TFB's does not plan an active network expansion and is more focused on maintaining the number of points of sale at their existing level while ensuring greater efficiency thereof and increasing the sales of products through Internet banking and other remote channels. In addition, as an integral part of its Strategy, TFB strives to raise employee and labour efficiency by increasing the number of products offered by each employee in both corporate and retail segments.

Further, TFB intends to improve its operational efficiency by further strengthening its internal management and project management systems and controls. In addition, TFB continuously seeks to enhance its IT systems and their security which, in turn, is expected to help support the planned growth of its business in light of TFB's strategy to increase the share of retail and SME segments, as well as to allow TFB to adapt to the changing needs and objectives of its business in order to provide adequate support to its internal management and reporting systems and ensure that its products and services are processed in a cost effective manner.

The management of TFB expects that the implementation of the above steps would allow TFB to ensure profitability.

Market Position and Competitive Strengths

According to the CBR, as at 1 August 2016, 669 banks operated in Russia.

Due to the large number of banks in Russia, TFB faces competition in all regions and locations in which it operates and in which it intends to expand its banking operations. TFB believes that, in terms of both corporate and retail lending, its primary competitors in the Republic of Tatarstan are Sberbank of Russia and PJSC AK BARS Bank ("**AK BARS**"). In retail segment TFB also competes with VTB24, Home Credit and Finance Bank, Russian Standard Bank, Tinkoff Credit Systems and Bank Vostochniy. In corporate banking, TFB's competitors also include Alfa-Bank, Ural Bank for Reconstruction and Development, JSC "Russian Bank for Small and Medium Enterprises Support" ("**SME Bank**"), Promsvyazbank, Russian Agricultural Bank and Gazprombank.

TFB believes that it has a number of competitive advantages, including:

The second largest bank in one of the most developed regions of Russia

The Republic of Tatarstan has historically been one of the key and most developed (both economically and socially) regions of the Russian Federation. According to the Strategy of Social and Economic Development of the Republic of Tatarstan until 2030 (the "**Development Strategy**") and research conducted in preparation thereof, in 2014, Tatarstan was ranked 7th Russian region by volume of gross regional product, 5th Russian region by the volume of capital investments and manufacture production and 3^d Russian region by volume of agriculture production. Further, according to the Development Strategy, from 2004 to 2013 the gross regional product per capita of Tatarstan was largely growing and exceeded the gross national product per capita during the referenced years. TFB believes that this trend has also maintained following 2013.

According to Banki.ru, a Russian on-line analytical resource, as of July 2016, TFB was ranked the second largest private bank in the Republic of Tatarstan in terms of net assets, loan portfolio, retail deposits and investments in shares and the 44th largest bank in Russia in terms of net assets, as calculated under Russian accounting standards.

TFB's management believes that a robust social and economic profile of the Republic of Tatarstan underpins the strength and reliability of TFB's client base which gives competitive advantage to TFB as compared to its peers operating in less developed regions of Russia. Further, TFB believes that its position of a reliable and stable bank is confirmed by its strong track record and more than 20 years of experience in the Russian market. TFB's management

believes that TFB's market position, reputation and brand recognition is the key element of TFB's success in retaining existing clients, growing its customer base through attracting new clients and achieving funding needs.

A stable bank showing consistent growth

TFB's management believes TFB is a stable Russian bank showing consistent growth across the customer base and key balance sheet metrics. As such, TFB's client base grew from 891,000 clients as at 31 December 2014 to 953,000 clients as at 31 December 2015 and 969,000 clients as at 30 June 2016.

The Group's net loan portfolio increased from RUB 96,724 million as at 31 December 2014 to RUB 121,282 million as at 31 December 2015 and further to RUB 129,414 million as at 30 June 2016.

The Group's customer accounts, which is the key source of funding, grew from RUB 90,160 million as at 31 December 2014 to RUB 111,976 million as at 31 December 2015 and RUB 136,310 million as at 30 June 2016.

A wide product line and a comprehensive range of banking services

TFB is a universal commercial bank that offers a broad range of high-quality and hi-tech bank products and services to its clients, improving traditional products and services and introducing new ones. Broad product range allows TFB to target wide range of customers which gives TFB a competitive advantage over banks focusing on a particular type of product or group of clients. In addition diversified business approach makes TFB less exposed to the inherent customer and product risks allowing to switch the focus between products and segments depending on the environment and business needs.

A well-developed distribution network, broad customer base and well-established client relationships

TFB has a well-developed distribution network predominantly focused on the Republic of Tatarstan. TFB's wide distribution network extending to 16 regions of Russia allows TFB to cover a large number of corporate and retail clients and maintain close relationships therewith which enables TFB better understand their needs and address them promptly and properly.

As at 30 June 2016, TFB served approximately 37,000 corporate clients, 35,000 SME clients and around 525,000 retail customers. TFB has strong working relationships with leading companies in the Republic of Tatarstan across key sectors of the economy such as trade, finance, agriculture, food industry, real estate, construction and manufacturing. TFB provides broad support to the development of SME lending both under its own programmes and under the programmes of SME Bank. TFB's broad customer base allows it to increase its lending operations and enhance its business in the future.

Due to the significant role of agriculture in Tatarstan's economy, TFB has been actively involved in government programmes to support agricultural producers. This degree of engagement has enabled TFB to develop considerable expertise in lending to agricultural producers. TFB has built a strong customer base of agricultural clients that allows TFB to offer these clients various products on competitive terms.

Committed shareholders willing to provide support

As of the date of this Prospectus, the Republic of Tatarstan and Mr. Robert Musin jointly hold more than 50 per cent. of TFB's shares. Both beneficial owners have maintained their interest in TFB since the date of its incorporation and have historically provided support to TFB, including through recent capital injections, namely RUB 4 billion subordinated deposit placed by with TFB and the expected effect of the placement of additional shares with the aggregate nominal amount of RUB 2.4 billion in July 2016 (See "*Strategy – Improve its capital position*") which strengthened and is expected to strengthen TFB's capital position further. In addition, the most recent share capital increase is expected not only to raise TFB's tier 1 capital, but, according to TFB, also to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent. which evidences the strategic importance of TFB and its business for Tatarstan and the Republic's willingness to continue business cooperation. Further, TFB's cooperation with the Republican government is enhanced thorough Mr. Robert Musin, a former Minister of Finance of the Republic of Tatarstan and former Chairman of the Board of Directors of AK BARS, who currently serves as the Chairman of the Management Board of TFB and is fully involved in its day-to-day management and operations and Mr. Ildar Khalikov, the Prime Minister of the Republic of Tatarstan, who chairs the Board of Directors. In light of the above and based on the positive past experience, TFB's management believes that the current beneficial owners are committed to value creation and would provide the necessary support to TFB in the future to the extent required.

Banking Services and Activities

Overview

TFB provides a full range of banking services to both corporate (including SMEs) and retail customers. TFB's banking business includes three main operating segments: corporate banking, retail banking and investment banking as describe in more detail below.

For the year ended 31 December 2015, the Group's corporate banking business, retail banking business and investment banking business accounted for 62.9 per cent., 19.4 per cent. and 17.7 per cent. of TFB's interest income, respectively. In terms of interest income, as at 30 June 2016, the Group's corporate banking business, retail banking business and investment banking business accounted for 67.6 per cent., 17.8 per cent. and 14.7 per cent. of the Group's total interest income, respectively.

Corporate Banking

TFB provides a broad range of commercial banking services and products to large private companies, SMEs and state-owned companies, as well as regional and municipal authorities based predominantly in the Republic of Tatarstan. The majority of TFB's corporate clients operate in key sectors of the Russian economy, including trade, finance, agriculture, food industry, real estate, construction and manufacturing.

As at 30 June 2016, the Group's gross corporate loan portfolio (including loans to SMEs) and the Group's corporate customer accounts amounted to RUB 118,010 million and RUB 32,139 million, respectively, as compared to RUB 114,710 million and RUB 35,155 million, respectively, as at 31 December 2015 and RUB 85,796 million and RUB 30,425 million, respectively, as at 31 December 2014.

In recent years, TFB has implemented a number of measures aimed at strengthening its position in the corporate banking segment, including the participation in state national projects and the expansion of its product range. See "*Banking and Services Activities – Corporate Banking – SME Lending*". Furthermore, TFB intends to further develop its corporate banking business with a particular focus on the SME segment. See "*– Strategy – Grow SME banking*".

As at 30 June 2016, TFB's corporate customer base amounted to more than 36,000 corporate clients and approximately 35,000 SME clients as compared to 35,000 and 33,000 and 30,000 and 34,600 corporate clients and SME clients as at 31 December 2015 and 2014, respectively.

TFB's services to corporate clients include, among others, different types of lending, deposit taking, customer accounts, settlement and transactional services, payroll services and corporate plastic cards.

Lending

TFB's corporate lending business consists primarily of issuance loans to large corporate clients and SMEs. Loans are generally available in Roubles and U.S Dollars. As at 30 June 2016, the Group's gross corporate loan portfolio (including loans to SMEs) amounted to RUB 118,010 million, of which 94.5 per cent. was denominated in Roubles.

Loans to large corporate customers. TFB's large corporate clients include primarily entities operating in trade, finance, real estate and construction and production and food industry segments.

Generally, the average principal amount of a loan to large corporate clients exceeds RUB 200 million while the average principal amount of a loan to SME clients is RUB 32.7 million. The majority of loans to large corporate clients are extended at fixed interest rates, with the average interest rate being 14.8 per cent. per annum for the year ended 31 December 2015 and 12.3 per cent. per annum for the year ended 31 December 2014. The average term of the loans to large corporate clients was two years for the periods under review.

Loans to large corporate customers generally require collateral which include securities, equipment, real estate, inventories or other assets. Generally, the value of the collateral for loans to corporate customers must cover the principal and interest amount of the loan, as well as potential expenses that may be incurred in connection with the enforcement of such collateral. The collateral which TFB typically accepts for corporate loans is typically discounted by 30 to 50 per cent. to the market value of such collateral, depending on the type of collateral.

As at 30 June 2016, 12 per cent. of the Group's gross corporate loan portfolio was secured by real estate, 12 per cent. were secured by securities and 9 per cent. – by other assets whereas 67 per cent. of the Group's gross corporate loan portfolio was unsecured. See "*Risk Factors – Risks Relating to TFB's Business and Industry - Enforcement of TFBs rights in Russia including the enforcement of security or guarantee arrangements in Russia may be time consuming or impossible*". TFB has not established lending programmes for large corporate clients and grants such loans on an individual basis. Commercial terms of TFB's loans to large corporate customers also differ depending on the customer's credit rating, financial condition, maturity of the loan and other factors.

For a discussion of the concentration in the Group's loan portfolio see "*Financial Review – Consolidated Financial Position as at 30 June 2016 and 31 December 2015 and 2014– Total Assets – Loans to Customers*".

Loans to SMEs. In line with Russian law, TFB defines SMEs as entities with the annual revenue of up to RUB 1 billion (for medium enterprises) and RUB 400 million (for small enterprises) and the headcount of up to 250 employees (for medium enterprises) and 100 employees (for small enterprises). Generally, the principal amount of an SME loan does not exceed RUB 200 million. TFB's SME clients include primarily entities operating in wholesale and retail trade, manufacturing, real estate and finance.

As at 30 June 2016, the Group's gross SME loan portfolio amounted to RUB 8,416.2 million, or 7.1 per cent. of the Group's gross corporate loan portfolio and 5.8 per cent. of the Group's gross loan portfolio.

In accordance with its strategy, TFB intends to continue promoting its own SME products, participating in state and regional programmes for SME support and collaborating with SME Bank to increase SME lending operations. See "*– Strategy – Grow SME banking*". Accordingly, TFB has developed its own SME lending programmes, as well as participated in programmes with SME Bank, which include origination of loans under standard terms, aimed at supporting SMEs operating in various sectors of the Russian economy. Under these programmes, SME Bank provides credit lines to TFB, which in turn uses the relevant proceeds to extend loans to SMEs at subsidised interest rates for the purposes of purchasing new machinery and equipment and upgrading existing equipment.

The table below describes TFB's lending programmes offered to SMEs:

Name	Currencies	Principal amount	Term	Interest rate	Secured or unsecured
Turnover	Roubles	500 thousand – 100 million	Up to 2 years	15.7 – 24.1 per cent.	Secured and unsecured
Invest	Roubles	500 thousand – 100 million	Up to 5 years	16.1 – 23.4 per cent.	Secured
Over	Roubles	500 thousand – 60 million	60 days	15.5 – 19.4	Secured and unsecured

TFB constantly strives to strengthen its position in the corporate lending sector, expanding corporate lending operations and improving the quality of its corporate portfolio. In recent years, TFB introduced a broad range of measures to achieve these goals, which include:

- participating in the NGS (the National Guarantee System which includes Regional funds, SME Corporation, SME Bank) to increase the proportion of secured loans in TFB's credit portfolio;
- entering into agreements with SME Bank to raise funds. It will enable TFB to finance the TFB's clients at below-market interest rates;
- entering into an agreement with EXIAR providing for a guarantee-based mechanism to support exporters. Such steps will make portfolio of clients who are engaged in export more solid;

- mitigating default risks by making continuous improvements to credit, limit policies and policies relating to the pledge and interest rates; and
- attracting foreign capital with support of foreign export credit agencies. These measures will promote financing cross-border transactions of TFB's clients.

In addition, TFB is focused on increasing the quality of the corporate loan portfolio. To that end, TFB has implemented a more conservative procedure of assessment of the borrowers' creditworthiness and improved its credit scoring techniques. In addition, as part of the underwriting process, TFB's credit committee launched interviews with borrowers to carefully review and analyse their financial statements, financial condition and business plan prior to extending a new loan or restructuring an existing one. TFB also requires personal guarantees from the borrower's management and/or shareholders as a condition precedent for extending any new loans. Likewise, where loans are restructured, TFB generally requires borrowers to provide additional collateral and personal guarantees from the borrower's management and/or shareholders. As at 30 June 2016, RUB 10,400 million, or 7.1 per cent. of the Group's gross corporate loan portfolio, had been renegotiated.

For a detailed discussion on the Group's corporate loan portfolio see "*Financial Review – Consolidated Financial Position as at 30 June 2016 and 31 December 2015 and 2014 – Loans to Customers*".

Deposit Taking

TFB offers its corporate customers a range of term deposits in Roubles, U.S. Dollars and Euro. The interest rate depends on the deposited amount, term and currency, as well as frequency of interest payments. TFB considers deposits as an important source of funding and, as part of its strategy to diversify its funding base, intends to increase the amount of term deposits of corporate entities as compared to retail term deposits.

The table below describes corporate deposit programmes available offered by TFB:

Type	Currencies	Principal amount	Term	Interest payment	Interest rate
Maximum Income	Roubles	From 100,000	From 1 to 360 days	On maturity	7 – 11.1 per cent.
	USD	From 10,000			0.45 – 2 per cent.
	EUR	From 10,000			0.27 – 1.2 per cent.
Regular Income	Roubles	From 100,000	From 31 to 360 days	Per month	7.56 – 10.6 per cent.
	USD	From 10,000			0.36 – 1.9 per cent.
	EUR	From 10,000			0.18 – 1.1 per cent.
Guaranteed Income	Roubles	500,000	367 days	On maturity	9.8 – 10.8 per cent.
Rational Income	Roubles	500,000	From 61 to 360 days	On maturity	8.4 – 9.5 per cent.
On Demand	Roubles	From 1	On demand	When all amount deposited is	0.001 per cent.

USD	From 1	repaid
EUR	From 1	

For a discussion of the concentration in the Group's deposit portfolio see "*Financial Review – Funding– Customer Accounts*".

As at 30 June 2016, TFB had 1,102 deposit accounts held by corporate clients, as compared to 1,111 and 866 deposit accounts as at 31 December 2015 and 2014, respectively.

Payment and Account Services

TFB provides payment and account services to and on behalf of its corporate customers through its office network and correspondent banking network. TFB's corporate customers are also able to conduct banking operations and manage their accounts through TFB's remote access systems. See "*IT Infrastructure*". As at 30 June 2016, TFB had 35,449 current/settlement accounts of corporate entities as compared to 33,916 and 31,534 current/settlement accounts as at 31 December 2015 and 2014, respectively.

Correspondent Banking and Interbank Lending

TFB considers other Russian and foreign banks and financial institutions to be an important business segment. TFB provides a range of services to its correspondent banks, including, among others, settlement services and the servicing of plastic cards. TFB maintains correspondent accounts with UBS, Bank of America Merrill Lynch, Bank of New York Mellon, Commerzbank AG, VTB Bank (Deutschland) AG, Banco Bilbao Vizcaya Argentaria SA and Landesbank Baden-Wuerttemberg. Through a network of correspondent accounts with these banks, TFB aims to provide efficient and effective settlement of transactions for its customers.

TFB acts both as a borrower and as a lender in the interbank market. TFB uses its relationships with correspondent banks to maintain its short-term liquidity, which is provided by 125 counterparty banks with aggregate open credit limits of more than RUB 4.5 billion. In the ordinary course of business, for the liquidity and fund management purposes, TFB conducts lending and other operations, including reverse repurchase transactions on the interbank market.

International Settlements and Trade Finance

TFB supports its corporate clients' foreign trade operations by providing payment and settlement services in connection with their import and export operations, currency control, trade finance and project finance transactions. In connection with foreign trade transactions, TFB's corporate banking services include the provision of bank guarantees, issue of import and export letters of credit, as well as origination of special purpose loans that are guaranteed by export credit agencies.

TFB provides a comprehensive range of services in respect of foreign trade finance activities, which allows its corporate customers to optimise the structure and financing of their foreign trade transactions and arrange settlements and exercise control over cash and commodity flows in the servicing bank. TFB has developed a number of proprietary trade finance schemes utilising a wide range of banking instruments, including letters of credit, bank

guarantees and special purpose loans (guaranteed by foreign export credit agencies), as well as certain other instruments. TFB offers various types of guarantees to secure trade finance, including tender guarantees, advance payment guarantees, performance guarantees, stand-by guarantees, payment guarantees and customs guarantees (both for import and export operations). Special purpose loans that are guaranteed by export credit agencies are used mainly for financing of import purchase of equipment and components. TFB has established relations with a number of export credit agencies, including ATRADIUS (The Netherlands) and KUKE (Poland).

As at 31 December 2015, TFB's outstanding balances of guarantees issued amounted to RUB 11,152 million. For the year ended 31 December 2015, TFB's fee and commission income from issue of guarantees and letters of credit amounted to RUB 172.4 million.

Payroll Services and Corporate Credit Cards

TFB offers plastic cards and deposit products directed to assist clients with payment processing services, payroll and cash handling services to their employees. TFB's payroll services allow employees' salaries to be paid into individual deposit accounts, which, in turn, reduces employers' cost of paying employees' salaries and enables employees to withdraw cash using payroll cards at TFB's offices and ATMs, including ATMs of certain other banks.

TFB offers text alert systems, which allow clients to obtain real-time data about account balances and statements and information on cash withdrawals and payments for goods and services via their mobile phones. As at 30 June 2016, TFB provided payroll services to 3,100 corporate customers as compared to 3,000 corporate customers as at 31 December 2015 and 2,600 corporate customers as at 31 December 2014.

These employee-focused services create opportunities for synergies between TFB's retail products and services to corporate customers. For example, TFB's corporate payroll services allow employees' salaries to be paid into individual deposit accounts, which can be linked to additional retail services such as debit and credit cards, overdrafts and salary advances.

TFB issues and services VISATM Business. As at 30 June 2016, TFB issued its corporate cards to 2,157 companies as compared to 1,325 companies as at 31 December 2015 and 263 companies as at 31 December 2014.

Retail Banking

TFB's retail banking business includes consumer finance products (consumer loans, mortgage loans and auto loans), deposit taking, payment and account services, debit and credit cards, as well as other retail banking services.

TFB's target retail customers include mass and low-mass segments (customers with monthly income below RUB 20,000), as well as a high-mass segment (customers with monthly income above RUB 55,000, primarily employees of large corporate customers to which TFB provides payroll services). For these categories of customers, TFB has developed special credit products with interest rates starting from 16.49 per cent. per annum, while interest rates for walk-in customers start from 20.99 per cent.

TFB has also developed programmes for small towns of the Republic of Tatarstan with a population of up to 100,000 where citizens generally have lower incomes but are still reliable

customers. These programmes are aimed at extending consumer loans to pensioners and individual entrepreneurs and business owners.

TFB has two credit committees responsible for the management of credit risk arising from TFB's retail lending operations. TFB's Principal Credit Committee and Small Committee are responsible for decisions on extending loans to retail customers who do not meet standard eligibility criteria or where the relevant loan exceeds the limits established for individual loan officers. TFB's Small Credit Committee is authorised to approve loans in the amount of up to RUB 10 million. All decisions regarding retail lending are centralised at TFB's head office in Kazan.

As at 30 June 2016, the Group's retail customer accounts and gross retail loan portfolio amounted to RUB 104,170.7 million and RUB 28,340.8 million, respectively, as compared to RUB 76,820.8 million and RUB 24,867.2 million, respectively, as at 31 December 2015 and RUB 59,735.1 million and RUB 25,826.1 million, respectively, as at 31 December 2014.

As at 30 June 2016, TFB had 933,000 retail customers as compared to 918,000 retail customers as at 31 December 2015 and 858,000 retail customers as at 31 December 2014.

Lending

TFB's retail lending comprise consumer loans, mortgage loans and auto loans. TFB generally originates retail loans in Roubles but also has a portion of retail loan portfolio denominated in U.S. Dollars.

TFB originates loans on both secured and unsecured basis. The commercial terms of TFB's retail loans differ, depending on the retail product, the client's credit rating, the borrower's income, security, the maturity of the loan and other factors.

In its assessment of a retail loan application, TFB carries out individual checks of the prospective client and uses a number of consumer credit databases. Generally, information on a retail loan application is entered into a specialised front-office system which performs the evaluation of the potential borrower. The application is also verified by TFB's security department and is reviewed by the credit committee. See "*Risk Management – Credit Risk*".

Consumer loans. TFB launched its consumer lending programme in 2001. TFB offers secured consumer loans from RUB 10,000 (approximately U.S.\$ 160 as at the date of this Prospectus) for a period from one month to seven years. Consumer loans provided by TFB have a fixed interest rate of between 16.49 per cent. and 25.49 per cent. per annum, depending on a number of factors, including security, client group, borrower type, maturity date and method of confirmation of the borrower's income.

TFB offers its clients several types of consumer loans as described in the table below:

Name	Target Client Segment	Principal amount	Term	Interest rate
Simple Loan	Individuals who are not registered as individual entrepreneurs and (or) Owners of Business	100,000 – 2,000,000 roubles (for secured loans the maximum amount is not limited)	7 years	14.49 – 24.49 per cent. for Payroll clients
			(1-7 years)	14.99 – 24.99 per cent. for borrowers who are employers of SDE enterprises

				15.49 – 25.49 per cent. for borrowers who are employees of enterprises that are Partners of TFB
				18.99 – 25.49 per cent. for other borrowers
Not Large	Individuals who are not registered as individual entrepreneurs and (or) Owners of Business	10,000 – 99,000 roubles	11 month s (1-11 months)	21.99 per cent. for Payroll clients (19,99 per cent. is the minimum rate available) 26.49 per cent. for Payroll clients (24,49 per cent. is the minimum rate available)
Regardful	Individuals who are not registered as individual entrepreneurs and (or) Owners of Business, who are pensioners and whose principal source of income is pension	30,000 – 500,000 roubles	7 years (1-7 years)	17.49 – 24.49 per cent.
PSH loan	Individuals engaged in Private Subsidiary Household activities, including individual entrepreneurs and Owners of Business	20,000 – 700,000 roubles	5 years (1-5 years)	21.99 – 23.99 per cent.
Loan for employees of the Ministry of Internal Affairs	Employees of the MIA of the RT, who have concluded payroll or other agreement	From 30,000 roubles	1 year	Three quarters of the CBR Key Rate 24.49 per cent. since the employment is terminated
Entrepreneur (partial moratorium on this program is commenced)	Individual entrepreneurs who have been individual entrepreneurs for a term not less than one year and Owners of Business whose business has been engaged in activities for a term not less than one year	100,000 – 2,000,000 roubles	7 years (1-7 years)	14.49 – 18.99 per cent. for Payroll clients 14.99 – 19.49 per cent. for borrowers who are employers of SDE enterprises 15.49 – 19.99 per cent. for borrowers who are employees of enterprises that are Partners of TFB 18.99 – 23.49 per cent. for other borrowers

As at 30 June 2016, the Group's gross consumer loan portfolio amounted to RUB 13,844.8 million, or 48.85 per cent. of the Group's gross retail loan portfolio, of which 94 per cent. was unsecured. As at 30 June 2016, TFB had 67,474 outstanding consumer loans, as compared to

80,225 and 90,926 outstanding consumer loans as at 31 December 2015 and 2014, respectively.

Mortgage loans. Mortgage loans under TFB's mortgage lending programme are provided for the purchase of real estate in both primary and secondary markets as well as for general purposes secured by mortgage of the borrowers' properties. Mortgage loans are offered in an amount of RUB 300,000 to 500,000 for a period of 3 to 20 years with an interest rate of 13.49 per cent. to 21.99 per cent. per annum depending on the selected mortgage programme, insurance, method of confirmation of the borrower's income and client classification. Mortgages under subsidised programmes are provided at a rate of 7 per cent. per annum.

The current mortgage loan programmes offered by TFB are described in the table below:

Name	Principal amount	Term	Interest rate	Security
Standard Mortgage	300,000 – 50,000,000 roubles	36 – 240 month	12.49 – 18.99 per cent.	Apartment; House with a land plot
Initial Mortgage	300,000 – 50,000,000 roubles	36 – 240 month	13.49 – 19.49 per cent.	Pledge of rights under Sharing Participation Agreement or assignment thereof with subsequent substitution of pledged property for acquired Apartment after construct completion; Pledge of immovable property available (Apartment, House with a land plot) with subsequent substitution of pledged property for acquired Apartment after construct completion; Pledge of immovable property available (Apartment, House with a land plot) with subsequent substitution of pledged property for House constructed
Pledged Mortgage	300,000 – 50,000,000 roubles	36 – 180 month	15.49 – 21.49 per cent.	Pledge of immovable property available (Apartment, House with a land plot, untenable property (commercial real estate with land plots/ shares in land title attached thereto)
Special Mortgage	300,000 – 50,000,000 roubles	36 – 240 month	10.99 – 19.99 per cent.	Pledge of acquired tenable immovable property (Room/Share of title for an apartment – for Saint-Petersburg branch only); Pledge of acquired untenable immovable property (Land plot including unfinished construction situated thereon/ dacha (garden) house with land plot/garage/untenable commercial real estate including real estate with land plot/shares

				in land title)
Reliable Partners	300,000 – 50,000,000 roubles	36 – 180 month	6.90 – 17.00 per cent.	Apartment; Pledge of rights under Sharing Participation Agreement or assignment thereof with subsequent substitution of pledged property for acquired apartment after construct completion
Mortgage for employees	300,000 – no limit roubles	36 – 240 month	13.49 – 20.49 per cent.	Apartment; House with a land plot; Room; Pledge of rights under Sharing Participation Agreement or assignment thereof with subsequent substitution of pledged property for acquired Apartment after construct completion

As at 30 June 2016, the Group's gross mortgage loan portfolio amounted to RUB 7,976.5 million, or 28.14 per cent. of the Group's gross retail loan portfolio. As at 30 June 2016, TFB had 4,479 outstanding mortgage loans, as compared to 4,185 and 5,591 outstanding mortgage loans as at 31 December 2015 and 2014, respectively.

In January 2015, with a view to optimise its balance sheet, TFB completed a debut securitisation of a portion of its mortgage loan portfolio through issuance of mortgage-backed securities in the aggregate principal amount of RUB 2,656.4 million.

Auto loans. TFB launched its auto loans programme in 2004. In addition to its own programmes, where TFB actively co-operates with car dealers and insurance companies to ensure the best terms and conditions for auto loans to its customers, TFB also extends auto loans under the state subsidised programmes for the purchase of vehicles assembled in Russia at lower interest rates. Auto loans under TFB's auto loans programme are offered in an amount from RUB 60,000 with a maturity of between one and seven years at a fixed rate of between 16.5 per cent. to 24.79 per cent. per annum depending on the downpayment, the car's brand and age, insurance, client group, borrower type and method of confirmation of the borrower's income.

The auto loan programmes currently offered by TFB are described below.

Name	Principal amount	Term	Interest rate	Security
Auto-Universal	60,000 – no limits roubles	Up to 7 years (1,2,3,4,5,6,7 years)	21.2 per cent. for new vehicles (15.5 per cent. is the minimum rate available); 23.2 per cent. for used vehicles (17.5 per cent. is the minimum	Pledge of acquired vehicle

			rate available);	
			25.2 per cent. for Russian-manufactured used vehicles (19.5 per cent. is the minimum rate available);	
Auto-Universal (subsidised)	60,000 – no limits roubles	Up to 3 years (1,2,3 years)	13.32 per cent. (10.08 per cent. is the minimum rate available);	Pledge of acquired vehicle
Commercial transport (partial moratorium on this program is commenced – minimum 50 per cent of initial instalment)	60,000 – 2,000,000 roubles	Up to 5 years (1,2,3,4,5 years)	21.29 per cent. for new vehicles (17.49 per cent. is the minimum rate available); 24.29 per cent. for used vehicles (19.49 per cent. is the minimum rate available);	Pledge of acquired vehicle
Commercial transport (subsidised)	60,000 – no limits roubles	Up to 3 years (1,2,3 years)	13.33 per cent. (11.03 per cent. is the minimum rate available);	Pledge of acquired vehicle

As at 30 June 2016, the Group's gross auto loan portfolio amounted to RUB 6,519.4 million, or 23 per cent. of the Group's gross retail loan portfolio. As at 30 June 2016, TFB had 6,505 outstanding auto loans, as compared to 6,690 and 7,640 outstanding auto loans as at 31 December 2015 and 2014, respectively.

TFB constantly strives to strengthen its position in the retail lending sector by expanding its retail lending operations and improving the quality of its retail loan portfolio. In recent years, TFB introduced a broad range of measures to achieve these goals, which include offering loans on attractive terms, further development of client segmentation, expansion of the range of consumer finance products offered by TFB and overall improvement of the quality of client service. TFB also continues to improve its client scoring and on-line banking systems.

Deposit Taking and Payment and Account Services

At present, TFB has a number of deposit account products which include, among others, the following products:

- current/on-demand accounts ("*do vostrebovania*"). Individuals can freely withdraw or add funds to the account. Individuals receive interest on the deposit each month; and
- deposits from 31 to 91 days. Individuals have a right to withdraw funds during the life of the deposit with the loss of accrued interest. The range of rates offered on these deposits is from 1 per cent. to 4 per cent. per annum as at 1 August 2016.

The terms of deposit, such as withdrawal of funds during the life of the deposit, adding funds and frequency of payment depend on the type of particular deposit.

The interest rates offered on deposits vary in relation to the term of deposits:

- from 91 to 180 days, interest rates range from 7.8 per cent. to 8.6 per cent. as at 1 August 2016;
- from 181 days to one year, interest rates range from 8 per cent. to 11.2 per cent. as at 1 August 2016; and
- from one to three years, interest rates range from 7.5 per cent. to 11 per cent. as at 1 August 2016.

While TFB seeks to accept deposits on a term basis, due to Russian legal requirements all deposits are repayable on demand. See *"Risk Factors – Risks Relating to TFB's Business and Banking Sector in Russia - TFB is exposed to a potential outflow of deposits and is reliant on the availability of wholesale funding"*.

TFB's product line of deposit account services is aimed at meeting evolving market conditions and satisfying various customers' preferences. TFB offers customers' retail packages containing several specialised retail products targeted at certain client groups, including high net worth clients and pensioners. For example, special deposits with higher interest rates are available to pensioners. TFB constantly strives to introduce new retail deposit products to meet the growing market conditions and satisfy the customer needs.

TFB's retail customers can access and operate their accounts through TFB's offices and online banking system.

Credit and Debit Cards

TFB issues VISATM and MasterCardTM debit and credit cards. In 2002, TFB commenced transactions with MasterCardTM payment cards. In 2004, TFB became an associate member of VISATM. In 2007, TFB became a principal member of VISATM and, in 2009, of MasterCardTM. TFB believes that, due to a relatively low penetration of debit and credit cards in Russia, this market has significant potential.

TFB's credit cards generally vary by principal amount, interest rates and grace periods whereas debit cards differ based on authorised limits and loyalty and remuneration programmes. A substantial portion of TFB's debit cards are issued under payroll agreements with its corporate clients.

In addition, TFB constantly improves its card acceptance infrastructure by increasing the number of ATMs to ensure efficient and convenient customer service. As at 30 June 2016, TFB's own ATM network comprised 489 machines as compared to 511 machines as at 31 December 2015 and 2014.

Investment Banking

TFB's investment banking services include, among others, transactions in securities, securities management services, broker/dealer services, currency trading, asset management services and custody services and international settlements and trade finance.

Transactions in Securities

TFB's securities operations are secondary to its lending activities and represent a smaller portion of the Group's total assets as opposed to lending transactions. TFB engages in proprietary trading in securities, including trading in Russian Government, the Republic of Tatarstan and municipal debt securities, corporate debt securities, promissory notes and equity securities.

With regards to the acquisition of securities, TFB pursues a conservative strategy focusing on liquid Rouble-denominated securities (although a small portion of instruments is denominated in foreign currencies) of Russian issuers only with the maturity of up to 3 years. TFB's internal policy sets certain limits on buying and/or holding securities issued by a single issuer. These limits are determined on the basis of financial condition of the issuer and other material facts. See "*Assets, Liabilities and Risk Management – Stock Market Risk*".

More than a third of TFB's securities portfolio consists of debt securities included in the lombard list of the CBR, which allows such securities to be pledged as collateral at the CBR and attract lombard loans. TFB's focus on high-quality local currency securities with short tenor makes TFB's securities portfolio less exposed to negative market downturns. TFB also engages in proprietary trading of securities in its portfolio for the purpose of managing its liquidity position.

Securities Management Services

TFB offers its customers securities management services with respect to a wide range of securities, including shares, promissory notes and state, municipal and corporate bonds. TFB offers two strategies with respect to the management of securities on behalf of its customers. Under the conservative strategy, TFB invests, on behalf of a customer, into less risky instruments that include municipal and Russian Government bonds. Under the speculative strategy, TFB invests, on behalf of its customers, into riskier instruments that include corporate bonds and shares of a non-investment grade. TFB receives fee income for its securities management services.

Broker/Dealer Services

TFB offers brokerage services on the major Russian securities exchanges. It provides brokerage services through both traditional brokerage and internet trading systems. If a customer uses the traditional brokerage service, the customer must submit its orders to TFB's broker by telephone or telefax. Once the broker receives the order, the broker will execute such order on Moscow Exchange. In 2016, TFB launched a remote "Broker client" system which allows customers to submit orders and instructions to, and receive notifications from, brokers and dealers on-line. The system has enabled on-line submission of orders for securities transfers as well as monitoring of the portfolio and the transaction reports via Internet.

Currency Trading

TFB conducts general currency trading and overnight transactions on behalf of its customers. TFB is not involved in fixed-term operations. TFB conducts swap operations to hedge its currency risks. However, TFB views its currency exposure as relatively limited due to its policy of seeking to match its assets and liabilities with respect to each relevant currency.

Asset Management Services

TFB offers a full range of asset management services. Over the last five years, TFB has actively worked in the retail investment market offering its customers a broad range of such asset management products as bank mutual funds and unit investment funds. TFB's mutual funds are registered with the CBR. TFB's mutual and unit investment funds are open-ended funds. TFB's unit investment funds are managed by TFB Capital Management Company.

At present, TFB has a number of bank mutual funds and unit investment funds products which include, among others, the following:

- Unit Investment Fund "TFB-Financier". Customers' funds are invested into shares and bonds issued by Russian financial services corporations; and
- Unit Investment Fund "TFB-Resolute". Customers' funds are invested into shares and bonds issued by well-established "blue chip" companies.

TFB plans to expand and improve its asset management business in the future.

Custody Services

TFB also offers its customers custodial services for a wide range of securities, including shares and promissory notes, as well as state, municipal and corporate bonds.

Other Services

Precious Metals Operations

TFB's operations include trading of precious metals. TFB is an official distributor of the CBR for the sale of gold, silver, platinum and palladium coins to individuals and legal entities in the Republic of Tatarstan. The range of coins offered by TFB includes over 500 items. Operations with coins are performed at all of TFB's offices.

TFB offers its customers unallocated metal accounts which are available at all of its offices. The unallocated metal accounts services are performed by converting cash into precious metals (and vice versa) at the rates established by TFB on the date of the transaction.

Other Retail Services

TFB provides a number of other banking services to individuals, including foreign exchange operations, as well as rent of an individual safety deposit box. In addition, there is a significant demand for TFB's service of collecting and processing utility payments from individuals which are processed without charging any additional fees for this service.

In cooperation with a number of insurance companies, including PJSC Alfa-Strakhovanie and JSC D2 Strakhovanie, TFB is offering life insurance to its retail customers. TFB also cooperates with its partners in offering its clients (including through provided financing) certain other insurance-related products, such as roadside assistance, out-of-the-box home, business and medical insurance, legal assistance, investment life insurance and insurance for plastic card holders.

As part of the cooperation agreement with the Bakhettle supermarket chain, TFB issues co-branded Bakhettle-Tatfondbank credit and debit cards providing for discounts and cashback rebates for cardholders.

For holders of credit cards, TFB operates a loyalty programme providing for a cashback in the amount of 1 per cent. of non-cash payments (with the amount of cashback increased to up to 10 per cent. as part of the special promotions).

Network Coverage

As at the date of this Prospectus, TFB serviced its customers through a network consisting of the head office in Kazan, 5 regional branches and 88 other outlets. This network is located primarily in the Republic of Tatarstan but also extends to 15 other constituents of the Russian Federation, including Moscow, St.Petersburg, Nizhny Novgorod Region, Chuvashia Republic and Bashkortostan Republic.

TFB's primary objectives with respect to its regional development are to optimise its regional network, pursue a moderate regional expansion in its anchor regions (such as Tatarstan, Bashkortostan, Moscow and St. Petersburg) and improve the quality of its customer service. TFB is also following the best practices of the leading international banks by developing its internet banking and mobile app platforms.

In addition to expansion of its office network, TFB also intends to expand its ATM network, which as of the date of this Prospectus comprised over 480 terminals, by increasing the number of its own ATMs as well as by joining ATM networks of other banks. As of the date of this Prospectus, TFB entered into ATM network agreements with PJSC Rosgosstrakh Bank, JSC Raiffeisenbank, MKB Avers (LLC), Timer Bank (PJSC), OJSC Intekhsbank and JSCB Altynbank (LLC).

TFB seeks to further improve its customer service. TFB distributes customer questionnaires to receive feedback on customer service and conducts "secret customer" operations in its offices. TFB's management receives and assesses feedback on customer service and implements measures aimed at improving customer service. TFB has introduced uniform standards related to the opening of its offices and customer servicing standards.

TFB makes the decision of what type of office to open in a new region by considering such issues as economic conditions of the region and the prospective turnover.

TFB's branch offices are located in large cities of Russia, usually have three cash desks and employ 2 people per cash desk.

For the purpose of proper management of its network supervision, TFB has created a department within its organisational structure that is responsible for TFB's regional development.

Subsidiaries

Corporate subsidiaries

The table below sets out TFB's principal consolidated subsidiaries in the form of legal entities under IFRS as at 30 June 2016.

Name of Subsidiary	Jurisdiction	TFB's share percentage	Activity
IC "TFB Finance" LLC	Russian Federation	68.00 per cent.	Fiduciary asset management
CJSC "TFB-Aktiv"	Russian Federation	100.00 per cent.	Securities trading and financial intermediary
PJSC NCB "Radiotechbank"	Russian Federation	29.85 per cent.	Banking
AO Bank "Sovetsky"	Russian Federation	99.99 per cent.	Banking
CJSC "Mortgage Agent TFB-1"	Russian Federation	9.99 per cent.	Finance
Issuer	Ireland	N/A (contractual arrangement)	Eurobond issue
"Gazovik" LLC	Russian Federation	100.00 per cent.	Agriculture
JSC "Eidos-Dnaform"	Russian Federation	37.88 per cent.	Production of medical services

Radiotechbank

In 2011, TFB purchased 29.85 per cent. of shares Radiotechbank, a regional bank operating in the Nizhny Novgorod Region focusing on servicing retail clients with a view to enhance its presence outside Tatarstan. TFB subsequently reduced its share in Radiotechbank which as at 30 June 2016 amounted to 29.85 per cent. However, as a result of entering into a call option with the holders of 28.54 per cent. of shares in Radiotechbank, TFB exercises effective control over 58.39 per cent. of shares in Radiotechbank, which allows TFB to determine most of its operations and business decisions. According to *Banki.ru*, as of July 2016, Radiotechbank was ranked the 6th private bank in the Nizhny Novgorod Region by net assets, loan portfolio and retail deposits.

Below is a summary of the financial information of Radiotechbank as at 30 June 2016. This information is based on amounts before elimination of intra-group transactions.

As at 30 June 2016, Radiotechbank's total assets amounted to RUB 3,898 million, or 1.95 per cent. of the Group's total assets. Radiotechbank's loans to customers (net of allowance for impairment) amounted to RUB 2,629 million as at the same date and were primarily comprised of corporate loans.

As at 30 June 2016, Radiotechbank's total liabilities amounted to RUB 3,525 million, or 1.8 per cent. of the Group's total liabilities. As at 30 June 2016, Radiotechbank's customer accounts, which represent a major share of Radiotechbank's total liabilities, amounted to RUB 3,098 million. Radiotechbank's customer accounts primarily comprise term deposits of individuals.

Sovetsky

On 16 March 2016, TFB acquired 99.99 per cent. of shares in Sovetsky, a Russian bank providing traditional banking services to corporate and retail clients through a network of 53 branches and additional offices located in 19 regions of Russia. According to *Banki.ru*, as of July 2016, Sovetsky was ranked the 106th Russian bank by net assets, 123^d Russian bank by loan portfolio, 100th Russian bank by corporate customer accounts and 67th by retail deposits.

Below is a summary of the financial information of Sovetsky as at 30 June 2016. This information is based on amounts before elimination of intra-group transactions.

As at 30 June 2016, Sovetsky's total assets amounted to RUB 29,077 million, or 14.6 per cent. of the Group's total assets. Sovetsky's loans to customers amounted to RUB 6,511 million as at the same date and are primarily comprised of retail loans.

As at 30 June 2016, Sovetsky's total liabilities amounted to RUB 31,315 million, or 16.1 per cent. of the Group's total liabilities. As at 30 June 2016, Sovetsky's customer accounts, which represent a major share of Sovetsky's total liabilities, amounted to RUB 28,104 million. Sovetsky's customer accounts primarily comprise retail term deposits.

Unincorporated subsidiaries

As at 30 June 2016, unincorporated subsidiaries of TFB included the following entities.

Entity	Jurisdiction	TFB's share percentage	Activity
Closed-end real estate mutual investment fund "TFB Aktiv"	Russian Federation	100.00 per cent.	Investment
Closed-end combined mutual fund "TFB-Dalnovidny"	Russian Federation	100.00 per cent.	Investment
Closed-end private equity mutual fund "Professional"	Russian Federation	75.76 per cent.	Investment
Closed-end real estate mutual investment fund "Priozerny"	Russian Federation	100.00 per cent.	Investment
Closed-end real estate mutual investment fund "TFB-Investizionny"	Russian Federation	93.68 per cent.	Investment
Closed-end bank loan mutual fund "Tekhnologii Investiziy"	Russian Federation	62.76 per cent.	Investment

For the purposes of the IFRS Financial Statements, the TFB's portion of the assets held by these funds was recognised as investment property. TFB is entitled to hold or dispose of these assets at its discretion.

Employees

As at 31 December 2015, TFB had 3,317 employees, of which 1,673 employees, or 50.4 per cent., were located in Kazan and 1,644 employees, or 49.6 per cent., were located in TFB's regional offices.

For the year ended 31 December 2015, the Group's staff costs amounted to RUB 1,795.6 million, or approximately 49.8 per cent. of the Group's administrative and other operating expenses, as compared to RUB 1,916.1 million, or about 50.1 per cent. of the Group's operating expenses, for the year ended 31 December 2014. This decrease is due to optimisation of the relevant costs at the Group's level.

The Russian market is currently highly competitive for certain banking professional staff. Consequently, TFB is implementing a human resources strategy aimed at attracting and retaining the qualified personnel it requires for the successful development of its business. TFB developed educational and training programmes, which provide for professional training of employees at all levels. TFB's existing IT infrastructure monitors the progress of each employee and suggests educational and/or training programmes for each employee.

TFB's bonus remuneration programme has been in operation since the beginning of 2007. TFB monitors average salaries in the market and determines key performance indicators for different position levels.

There is no trade union in TFB. TFB has a council of employees which was established in 2002, which represents the interest of all employees. A collective labour agreement provides the same terms of employment for employees in regional and head offices.

IT Infrastructure

TFB's IT system is critical to its business operations; and is essential for TFB to increase its operating efficiency, co-ordinate and enhance its risk management and control systems, and meet the needs of its clients.

In 2002 and 2009, TFB implemented remote access systems that allow TFB's corporate and retail customers, respectively to conduct banking operations and remotely manage their accounts, including making and receiving payments in Roubles and foreign currencies, obtaining bank account statements and communicating with TFB 24 hours a day, seven days a week. Retail customers can also make utility and service payments and settle their credit card bills. The number of corporate and retail clients using remote access exceeds 18,900 and 166,000 customers, respectively.

TFB implemented a centralised IT system for all TFB's offices. The centralised IT system made the operational information available in all offices in real time. This centralised IT system synchronises all core customer information, products information and transaction processing and settlement. This enabled TFB to offer its customers end-to-end service at all its offices. The back-up devices operate in separate locations within TFB's head office in Kazan. TFB has not experienced any material disruptions regarding its IT support.

TFB introduced a client relationship management system on the basis of Microsoft software to further improve relations with its customers. As of the date of this Prospectus, TFB has computerised mortgage applications and the mortgage granting processes, as well as the procedure for account opening, on the basis of the Microsoft Dynamics software.

TFB's management continues to invest into the development of TFB's IT infrastructure and intends to invest or significantly upgrade its principal IT platform, introduce solutions for centralised processing and automation of retail lending processes, develop a modern online banking solution with improved design and usability for individuals and legal entities and further develop TFB's corporate data storage facilities. TFB is also working on the creation of a remote back-up data processing centre to improve the security of its IT infrastructure.

Litigation

As of the date of this Prospectus, TFB is involved as a defendant in litigation initiated by Mr. A.V. Teplyakov, a minority shareholder of Sovetsky, with the aggregate amount of claims to TFB being approximately RUB 15.2 billion. A judgement in favour of all claims made by Mr. A.V. Teplyakov was delivered by the Arbitrazh Court of Saint-Petersburg and Leningrad Region on 4 October 2016. TFB intends to file an appeal and contest the decision. Based on the estimates of the Group's management, this litigation should not have a material adverse effect on the Group.

Save as described above, TFB has no legal or arbitration proceedings pending or threatened that could have a material adverse effect on the Group's business, financial condition, results

of operations and prospects. TFB is, however, involved in a number of legal proceedings that have arisen in the ordinary course of business. TFB does not expect that these pending or threatened legal proceedings will have a material adverse effect on its financial condition or its business prospects.

ASSETS, LIABILITIES AND RISK MANAGEMENT

Introduction

The purpose of TFB's asset, liability and risk management (collectively, "**risk management**") strategy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of TFB's activities. The principal categories of risk inherent in TFB's business are (i) financial risks (including credit risk, liquidity risk and market risk (interest rate risk, currency risk and stock market risk)) and (ii) functional risks (including operational risk, legal risk and reputational risk).

TFB's risk management organisation is divided between those bodies that are responsible for establishing risk management policies and procedures and those bodies which implement such policies and procedures, including monitoring and controlling risks and limits on an ongoing and centralised basis. TFB follows the requirements contained in the Russian legislation, including recommendations issued by the CBR, and principles contained in documents of the Basel Committee on Banking Supervision and the Generally Accepted Risk Principles, in establishing its risk management policy.

TFB believes that, in light of TFB's strategy to enhance its retail and SME segments, TFB has the required experience in managing and monitoring the quality of the relevant loan portfolios and currently there is no intention to significantly change TFB's risk management policy to reflect this strategy. However, in the course of implementation of this strategy and depending on the circumstances, TFB may adjust its risk management policy if it notices any deficiencies.

Risk Management Organisational Structure

The decision-making bodies that set TFB's risk management policies include the Board of Directors, the Audit and Risk Committee of the Board of Directors, the Executive Board and Credit Committees.

Board of Directors. The Board of Directors has overall responsibility for risk management at TFB. In particular, it develops TFB's strategy on risk management and control, and approves the principal risk management procedures. The Board of Directors also sets and regularly reviews limits of acceptable level of risk, approves risk mitigation policy and specifies a list of banking and other transactions that require preliminary approval by the Board of Directors. In addition, the Board of Directors approves lending transactions that exceed the limits of the Management Board and credit committees.

Audit Risk Committee of the Board of Directors. The Audit Risk Committee of the Board of Directors is a subcommittee of the Board of Directors established to enhance the efficiency of the risk management system and to implement the management and supervisory decisions of the Board of Directors with respect to TFB's operations. The Audit Risk Committee of the Board of Directors ensures the involvement of members of TFB's Board of Directors in general management and monitoring of activities associated with risk management and achievement of their personal awareness of TFB's activity in this area.

Management Board. The Management Board is responsible for the implementation of the risk management policies established and approved by the Board of Directors. The Management Board approves internal rules applicable to TFB's units involved in risk

management, establishes main risk management principles, co-ordinates management of certain risks and sets the limits for market, credit, operational and liquidity risks as well as the procedures for their review within the scope of its authority. The Management Board approves TFB's credit policy, appoints members of the credit committees and approves certain decisions that are beyond the scope of authority of the credit committees.

Policy Implementation

Implementation of TFB's risk management policy is conducted by the Credit Committees, the Financial Committee, the Risk Management Department, the Treasury Department, the Internal Control Service and the Financial Controller.

Credit Committees. TFB has established several credit committees, which are permanent operating bodies instituted to consider and approve the terms of retail and corporate lending transactions. The credit committees exist at the level of TFB's head office. The credit committees include: (i) the Principal Corporate Credit Committee; (ii) the Principal Retail Credit Committee; (iii) the Small Corporate Credit Committee; and (iv) the Small Retail Credit Committee.

The Principal Corporate Credit Committee comprises 7 members and is presided over by the Chairman of the Management Board. The committee meets as often as twice a week or as needed. It decides on, among other things, the establishment and modification of criteria used by TFB in the analysis of asset quality.

In addition to the Principal Corporate Credit Committee, TFB also has the Small Corporate Credit Committee, which comprises 5 members and is presided over by the Deputy Chairman of the Board. The Principal Corporate Credit Committee is responsible for loans exceeding RUB 60 million.

The Principal Retail Credit Committee comprises 5 members and is presided over by Chairman of the Board. It decides on extending loans to retail customers who do not meet the standard requirements for retail loans.

The Small Retail Credit Committee is responsible for retail loans under general conditions, i.e. retail loans not exceeding RUB 5 million for consumer and auto loans and RUB 15 million for mortgage loans. The Small Retail Credit Committee comprises 3 members and is presided over by the Deputy Head of Retail Lending.

The consumer credit committee comprises three members and is presided over by the director of the retail business department. It is responsible for consumer lending to TFB's employees.

Financial Committee. The Financial Committee is responsible for, among other things, management of TFB's assets and liabilities, development of TFB's policies on limits and management of TFB's market risk. Decisions of the Financial Committee are approved by TFB's Management Board.

Risk Analysis Department. The Risk Analysis Department prepares analytical proposals in respect of the setting of limits established by TFB's Management Board, as well as proposals on limits applicable to other banks and other financial institutions and limits in respect of securities operations. This department also monitors compliance with various types of limits on lending operations, securities operations and foreign exchange operations. The Risk

Analysis Department prepares reports for the Management Board on risk assessment on a monthly basis.

Treasury Department. The Treasury Department is responsible for managing TFB's short-term liquidity, open currency positions and securities operations. The Treasury Department is also responsible for TFB's dealings with other financial institutions. The Treasury Department makes recommendations to the Management Board in respect of credit limit levels for financial institution counterparties.

Internal Control Service. The Internal Control Service is responsible for monitoring and assessing the adequacy of compliance with internal procedures and applicable legislation at all levels of the TFB's management. This monitoring is performed on a daily basis. The Internal Control Service participates in developing risk reduction procedures and banking operations standards and procedures.

Compliance Control Department. The Compliance Control Department was established to increase the efficiency of the internal control system and management of compliance risk. This department is responsible for compliance of the internal documents to legal requirements. In addition, this department develops procedures designed to reduce the compliance risk and performs constant and preliminary control over the transactions.

Financial Controller. The Financial Controller is a professional securities market participant that conducts continuous control over compliance with the risk management policy by TFB's employees and participates in financial risk management with respect to the operations in the securities market.

Liquidity Risk

Liquidity risk concerns the potential mismatch of maturities of assets and liabilities. The Board of Directors (i) determines TFB's policy with respect to the management of liquidity risk within the framework of the Development Strategy approved by the General Shareholders' Meeting and (ii) approves current and future business plans specifying liquidity parameters.

TFB's Risk Management Policy distinguishes between certain types of liquidity risk, such as: short-term liquidity ("*mgnovennaya likvidnost*") risk, current term liquidity ("*tekushaya srochnaya likvidnost*") risk and balance structural liquidity ("*strukturnya likvidnost balansa*") risk.

Short-term liquidity risk is managed by way of compliance with the mandatory ratios of the CBR of short-term liquidity, distribution of assets between the "Nostro" accounts, information collection in respect of proposed major transactions and clients' payments and the application of money market instruments such as swap and repo operations. Limits applied to short-term liquidity risk include setting minimum allowable balances on "Nostro" accounts and limits on the concentration of TFB's liabilities with respect to single counterparties and groups of affiliated counterparties.

Long-term liquidity risk is managed by way of compliance with an asset and liability structure with respect to currencies, terms, instruments and compliance with the mandatory ratios of the CBR of current and general liquidity. Such management may involve TFB raising and allocating funds of certain terms, reviewing operation limits, selling parts of

assets and reviewing pricing on resources distribution between TFB's departments. There are limits applied by TFB to reduce long-term liquidity risk, which include limits on the minimum amount of highly liquid assets, asset allocation term limits, limits on the maximum allowable amount of term mismatch and limits on the concentration of TFB's liabilities in respect of single counterparties and groups of affiliated counterparties.

Structural liquidity risk may arise from a breach of established principles of funding certain active operations with determined liability types. It is managed by co-ordinating and approving unified funding principles for TFB's active operations and complying with the mandatory ratio of the CBR on long-term liquidity. This kind of risk is limited by setting maximum allowable terms with respect to specific asset types.

The Board of Directors is responsible for the adoption of a basic policy of liquidity management. The Management Board approves the internal regulation of TFB in respect to liquidity management, manages the assets and liabilities of TFB and co-ordinates the activities of TFB's departments which may impact the liquidity position of TFB. The Department for Currency and Financial Operations and Current Liquidity manages the liquidity reserves of TFB. The Cash Operations Department manages the income of TFB. The Risk Management Division of the Risk Analysis Department develops TFB's internal regulation with respect to liquidity management and provides analytical support of decision-making of the Management Board taking into account their possible impact on TFB's liquidity. The Internal Control Service supervises other structure departments of TFB in relation to liquidity management basic policies and procedures.

The Financial Committee is responsible for TFB's liquidity forecasts and stress test models analysis. The Financial Committee is entitled to set limits under RUB 50 million, with limits over RUB 50 million being set by the Management Board.

TFB's Treasury Department monitors current short-term liquidity and TFB's open position on the market.

The match and/or controlled mismatch of asset and liability maturity periods and interest rates are crucial for managing the financial condition of TFB.

The following tables show financial assets and liabilities by remaining contractual maturity dates as at the reporting date, except for financial instruments at fair value through profit or loss. TFB believes that the majority of financial instruments at fair value through profit or loss can be realised by the Group in the short term for the purpose of analysis of the liquidity position as at the reporting date. These financial instruments are presented as matching liabilities which are maturing within the less than one-month period in the undiscounted maturity analysis tables as at 31 December 2015 and 31 December 2014. The expected cash flows from financial instruments at fair value through profit or loss can vary significantly from this analysis.

The table below sets out analysis of the Group's liquidity position as at 30 June 2016.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
<i>(in thousands of Roubles)</i>						
<i>(unaudited)</i>						
Financial assets						
Cash and cash equivalents	13,333,099	-	-	-	-	13,333,099
Mandatory cash balances with the CBR	-	-	-	-	1,704,518	1,704,518
Due from banks	10,167	1,160,992	-	596,390	964	1,768,513
Financial instruments at fair value through profit or loss	22,143,948	-	-	-	-	22,143,948
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	9,186,764	-	-	-	-	9,186,764
Securities lent	-	1,475,188	-	-	-	1,475,188
Loans to customers	4,797,049	38,154,783	37,410,607	45,363,571	3,688,332	129,414,342
Investments available-for-sale	6,230,867	-	-	-	-	6,230,867
Investments available for sale pledged as collateral under sale and repurchase agreements	644,187	-	-	-	-	644,187
Other financial assets	723,792	4,931,409	95,462	713,399	279,754	6,743,816
Total financial assets	57,069,873	45,722,372	37,506,069	46,673,360	5,673,568	192,645,242
Financial liabilities						
Due to the CBR	12,009,487	2,562,840	-	-	-	14,572,327
Due to banks	4,909,936	2,082,946	25,257	4,046,706	-	11,064,845
Customer accounts	26,506,416	71,227,377	33,554,749	5,021,146	-	136,309,688
Debt securities issued	258,661	11,817,523	2,290,450	1,409,610	-	15,776,244
Eurobonds issued	-	-	974,489	-	-	974,489
Amounts received from DIA	-	-	-	3,108,644	-	3,108,644
Subordinated borrowings	-	-	-	9,865,828	-	9,865,828
Other financial liabilities	377,017	23,737	15,595	73,618	1,740	491,707
Total financial liabilities	44,061,517	87,714,423	36,860,540	23,525,552	1,740	192,163,772
Net gap	13,008,356	(41,992,051)	645,529	23,147,808	5,671,828	481,470
Cumulative gap at 30 June 2016	13,008,356	(28,983,695)	(28,338,166)	(5,190,358)	481,470	-

The table below sets out analysis of the Group's liquidity position as at 31 December 2015.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/overdue	Total
<i>(in thousands of Roubles)</i>						
Financial assets						
Cash and cash equivalents	13,579,727	-	-	-	-	13,579,727
Mandatory cash balances with the CBR	-	-	-	-	891,824	891,824
Due from banks	2,354	927,941	-	456,697	-	1,386,992
Financial instruments at fair value through profit or loss	19,715,034	-	-	-	-	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	8,618,303	-	-	-	-	8,618,303
Securities lent	-	656,365	-	-	-	656,365
Loans to customers	7,605,540	28,013,518	45,671,921	38,330,079	1,660,650	121,281,708
Investments available-for-sale	6,705,716	-	-	-	-	6,705,716
Investments available for sale pledged as collateral under sale and repurchase agreements	3,012,640	-	-	-	-	3,012,640
Other financial assets	414,896	1,793,422	87,057	86,265	4,815	2,386,455
Total financial assets	59,654,210	31,391,246	45,758,978	38,873,041	2,557,289	178,234,764
Financial liabilities						
Due to the CBR	15,879,091	385,855	-	-	-	16,264,946
Due to banks	8,884,624	2,734,035	23,365	4,641,486	-	16,283,510
Customer accounts	26,583,591	50,659,368	31,885,749	2,847,177	-	111,975,885
Debt securities issued	439,785	6,447,536	8,196,015	931,597	-	16,014,933
Eurobonds issued	-	-	-	1,027,256	-	1,027,256
Subordinated borrowings and Eurobonds	-	-	-	10,309,218	-	10,309,218
Other borrowings	3,304	-	900	94,903	-	99,107
Other financial liabilities	304,535	65,593	7,664	1,548	-	379,340
Total financial liabilities	52,094,930	60,292,387	40,113,693	19,853,185	-	172,354,195
Net gap	7,559,280	(28,901,141)	5,645,285	19,019,856	2,557,289	5,880,569
Cumulative gap at 31 December 2015	7,559,280	(21,341,861)	(15,696,576)	3,323,280	5,880,569	-

The table below sets out analysis of the Group's liquidity position as at 31 December 2014.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
<i>(in thousands of Roubles)</i>						
Financial assets						
Cash and cash equivalents	16,412,809	-	-	-	-	16,412,809
Mandatory cash balances with the CBR	-	-	-	-	1,067,447	1,067,447
Due from banks	132,069	706,791	-	351,110	-	1,189,970
Financial instruments at fair value through profit or loss	24,370,555	-	-	-	11,670	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	7,931,456	-	-	-	-	7,931,456
Securities lent	-	1,477,238	-	-	-	1,477,238
Loans to customers	5,272,484	16,458,242	28,613,629	44,619,250	1,760,212	96,723,817
Investments available-for-sale	4,912,886	-	-	-	-	4,912,886
Other financial assets	479,412	1,748,561	60,045	123,418	54,764	2,466,200
Total financial assets	59,511,671	20,390,832	28,673,674	45,093,778	2,894,093	156,564,048
Financial liabilities						
Due to the CBR	7,670,614	5,333,996	-	-	-	13,004,610
Due to banks	7,654,078	1,154,352	823	3,129,503	-	11,938,756
Customer accounts	20,231,813	38,419,889	29,137,438	2,371,186	-	90,160,326
Debt securities issued	335,498	5,452,724	2,425,934	12,185,903	-	20,400,059
Eurobonds issued	-	-	-	3,820,534	-	3,820,534
Subordinated borrowings and Eurobonds	-	-	-	6,600,369	-	6,600,369
Other borrowings	4,520	-	260,861	930,301	-	1,195,682
Other financial liabilities	307,920	8,391	147,108	1,878	5,598	470,895
Total financial liabilities	36,204,443	50,369,352	31,972,164	29,039,674	5,598	147,591,231
Net gap	23,307,228	(29,978,520)	(3,298,490)	16,054,104	2,888,495	8,972,817
Cumulative gap at 31 December 2014	23,307,228	(6,671,292)	(9,969,782)	6,084,322	8,972,817	-

The table below sets out the Group's contractual maturities of financial instruments at fair value through profit or loss as at 31 December 2015 and 31 December 2014.

	31 December 2015	31 December 2014
	<i>(in thousands of Roubles)</i>	
Less than 1 month	19,715,034	24,370,555
From 1 to 6 months	-	-
From 6 to 12 months	-	-
Over 12 months	-	-
No stated maturity	-	11,670
Total	19,715,034	24,382,225

The following tables show financial liabilities by remaining contractual maturity dates as at 31 December 2015 and 2014. The amounts disclosed in the following tables are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because these amounts are based on discounted cash flows.

The table below sets out the Group's undiscounted maturity analysis of financial liabilities as at 31 December 2015.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
	<i>(in thousands of Roubles)</i>				
Financial liabilities					
Due to the CBR	15,919,378	389,224	-	-	16,308,602
Due to banks	8,962,157	2,892,917	176,572	5,518,334	17,549,980
Customer accounts	26,658,281	52,403,003	34,043,336	3,204,439	116,309,059
Debt securities issued	441,251	5,565,201	8,212,380	13,120,285	27,339,117
Eurobonds issued	-	56,120	56,120	1,076,477	1,188,717
Net settled derivatives	6,485	-	-	-	6,485
Subordinated borrowings and Eurobonds	-	240,198	289,185	13,849,284	14,378,667
Other borrowings	3,304	-	945	96,475	100,724
Other financial liabilities	304,535	65,593	7,664	1,548	379,340
Obligation to repurchase interests in a subsidiary	-	114,153	-	-	114,153
Total financial liabilities	52,295,391	61,726,409	42,786,202	36,866,842	193,674,844
Total commitments and contingencies	16,434,359	107,006	491,919	188,651	17,221,935

The table below sets out the Group's undiscounted maturity analysis of financial liabilities as at 31 December 2014.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<i>(in thousands of Roubles)</i>					
Financial liabilities					
Due to the CBR	7,802,839	5,445,438	-	-	13,248,277
Due to banks	7,779,448	1,375,902	262,890	4,438,887	13,857,127
Customer accounts	20,294,026	40,154,860	31,502,616	2,784,053	94,735,555
Debt securities issued	336,971	11,423,060	9,840,947	58,283	21,659,261
Eurobonds issued	-	216,595	4,154,683	-	4,371,278
Net settled derivatives	14,515	-	-	-	14,515
Subordinated borrowings and Eurobonds	-	129,179	131,321	7,622,860	7,883,360
Other borrowings	11,566	34,097	302,223	1,141,315	1,489,201
Other financial liabilities	307,920	8,391	147,108	7,476	470,895
Obligation to repurchase interests in a subsidiary	-	-	-	114,153	114,153
Total financial liabilities	36,547,285	58,787,522	46,341,788	16,167,027	157,843,622
Total commitments and contingencies	16,358,963	221,795	100,793	326,139	17,007,690

In accordance with the Russian legislation, individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, usually with a loss of accrued interest income. These deposits are presented by contractual maturity dates. As at 30 June 2016, term deposits of individuals with maturity of more than one month comprised RUB 63,638 million as at 31 December 2015 and RUB 50,896 million as at 31 December 2014.

Credit Risk

Credit risk is the risk that a borrower or a counterparty will not be able to meet its obligations in full when due. TFB is primarily exposed to credit risk through its loan portfolio, securities portfolio, guarantees, commitments and other on- and off-balance sheet credit exposures.

The Management Board, the Financial Committee, the Risk Analysis Department and the Internal Control System are involved in the process of credit risk management. TFB attempts to reduce credit risk by conducting a thorough investigation of each prospective borrower to determine its ability to repay its debt. TFB's loan portfolio is monitored on a daily basis by the Department of Corporate Lending and the Department of Retail Lending. However, assessing potential borrowers' credit quality and risk of default is difficult in Russia, since many borrowers do not have credit histories or audited financial statements prepared in accordance with IFRS. See "*Risk Factors - Risks Relating to TFB's Business and Industry - TFB may be unable to adequately assess the credit risk of customers and counterparties*". Furthermore, further deterioration of economic conditions due to the global financial crisis may lead to a further increase in the proportion of non-performing loans (i.e., loans overdue by more than 90 days) in TFB's loan portfolio despite TFB's risk management strategies. See "*Risk Factors*". Letters of credit, guarantees and other commitments to extend credit are generally subject to the same credit review procedures as loans. TFB's policies and procedures for evaluating the credit standing of corporate and individual customers are

discussed below. The general principles of TFB's credit risk management policy are outlined in the Policy on Formation of Reserves on Probable Losses from Loans and Other Similar Indebtedness.

Credit Policies and Procedures

Credit Origination Analysis for Corporate Clients

A prospective borrower typically must include on its loan application information on the prospective borrower's business, the purpose of the loan and the proposed collateral, guarantee and other assurance arrangements. Once a loan application is received from a corporate customer, TFB conducts an initial investigation based on the loan application, publicly available information and information contained in TFB's database. TFB's legal department evaluates the legal aspects of the proposed transaction, the prospective borrower's legal status and authority to enter into a loan agreement, as well as its authority to provide any collateral, guarantee or other assurance. TFB also evaluates the applicant's current and historical financial statements and, to the extent available, industry prospects, market position, cash flow, sources of funds, purpose of the loan, level of existing indebtedness, credit and debt service history and proposed collateral, guarantee or other assurance arrangements. TFB has established a multi-step approval procedure for corporate loans comprising, among others, preliminary approval of the application by the Security Service and comprehensive review of the application by the Legal Department and issue of the opinion by the relevant credit specialist. The decision to grant a loan is made, depending on the loan amount, by the Principal Corporate Credit Committee, Small Corporate Credit Committee or by a credit specialist.

Credit Origination Analysis for Retail Customers

As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral. Few individuals in Russia have credit histories and, to minimise credit risk, TFB conducts thorough investigations of prospective retail borrowers. TFB verifies and assesses the information provided in the loan application, evaluates the prospective borrower's income, education, employment, employment history and existing indebtedness and reviews supporting documentation, including a letter from the prospective borrower's employer verifying employment and income. TFB also reviews information for evidence of criminal activities. TFB has established a multi-step approval procedure for retail loans comprising, among others, antifraud and scoring checks and review of the application by the Security Service.

Collateral

TFB generally requires an assurance arrangement, collateral and/or third party guarantees for loans to corporate customers. In general, an assurance arrangement, collateral and/or third party guarantees, separately or together, cover the principal, the interest payable and commissions payable in respect of the loan. Acceptable collateral includes, among others, real property, land leasing rights, securities, industrial equipment, vehicles, precious metals and inventories. The value of collateral is determined by a third party appraiser selected from a list of independent appraisers approved by TFB and by TFB's collateral department. TFB accepts third party guarantees as long as they fall within its exposure limits for the guarantor. A guarantor is evaluated in the same manner as a borrower.

TFB's retail loan portfolio comprises both secured loan products (mortgage loans, auto loans and secured consumer loans) and unsecured loan products (unsecured consumer loans). As at 30 June 2016, a significant proportion of TFB's loans to individuals were fully or partially secured. Acceptable collateral includes real estate, personal property, securities, vehicles, equipment and other liquid assets. As with loans to corporate customers, the value of collateral is determined by a third party appraiser selected from a list of approved independent appraisers and by TFB's collateral department. TFB also accepts third party guarantees for retail loans from individuals and from its corporate customers. Guarantees are accepted within the credit limits set by TFB for the relevant guarantor. In the event that TFB's corporate customer is a guarantor for individuals (as a rule, the customer's employees), such lending operations are subject to a sub-limit established within the framework of the corporate customer's exposure limits.

Monitoring of the loan portfolio

TFB implements exposure limits taking into account any relevant CBR regulations. Compliance with the limits and actual exposures are monitored by the Risk Analysis Department and Financial Reporting Department. TFB is in compliance with the CBR exposure limits for single borrowers and groups of related borrowers.

TFB monitors its credit exposure with respect to its loan portfolio on a regular basis. Credit risk monitoring is performed by the Board of Directors, the Management Board, the Internal Control Service and the Risk Analysis Department.

TFB monitors the financial condition and creditworthiness of the borrower throughout the life of the loan. Credit departments and the Risk Analysis Department monitor their loan portfolios by conducting inspections, analysing customer's financial position and preparing the reports that are reviewed by the Management Board.

Non-Performing Loans Recovery

TFB has developed a set of procedures to handle non-performing loans (i.e., loans overdue by more than 90 days). TFB's policy on non-performing loans contemplates using all possible information sources for determining the reason for a default.

The share of non-performing loans in TFB's corporate loan portfolio amounted to 1.68 per cent. as at 30 June 2016, as compared to 1.27 per cent. as at 31 December 2015 and 1.72 per cent. as at 31 December 2014, respectively.

The share of non-performing loans in TFB's retail loan portfolio amounted to 8.15 per cent. as at 30 June 2016, as compared to 12.91 per cent. as at 31 December 2015 and 12.84 per cent. as at 31 December 2014, respectively.

For the six months ended 30 June 2016, the Group's impairment losses increased by 23.2 per cent. to RUB 2,411 million from RUB 1,957 million as at 30 June 2015.

For the year ended 31 December 2015, the Group's impairment losses increased by 99.1 per cent. to RUB 6,793 million from RUB 3,412 million for the year ended 31 December 2014. This increase is primarily attributable to the increase in, and deterioration of the quality of, the gross loan portfolio and sale of non-performing loans at loss.

Provisioning policy

IFRS provisioning

TFB establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost, the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that TFB considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions and the fair value of collateral and guarantees.

These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

As at 31 December 2015, the Group's total allowance for loan impairment amounted to 14 per cent. of its retail loan portfolio and 12.9 per cent per cent. of its corporate loan portfolio as compared to 13.8 per cent. and 13.2 per cent. as at 31 December 2014.

RAS provisioning

For CBR regulatory purposes, TFB applies a methodology based on RAS to calculate loan provisioning and determine expected losses.

Under the CBR regulations, provisions for loan impairment are established following a borrower's default under a loan or where there is objective evidence of the potential inability of the borrower to repay the loan. TFB creates provisions by reference to homogeneous credit portfolios (i.e. groups of loans consolidated on the basis of a certain credit risk criteria (e.g., type of a credit product or the borrower's industry sector or region of operation)) as well as by reference to individual credit products. Provisions with respect to homogeneous credit portfolios are created by reference to the aggregate of the amount of actual and expected

losses. Provisions with respect to individual credit products are calculated based on the borrower's financial condition and debt service quality. TFB has developed a policy for classification of loans into loss potential categories depending on the internal credit rating of the borrower and the quality of the credit product.

The table below sets out the loan classification of individual credit products that TFB applies for CBR regulatory purposes.

Loan Category	Status of Loan	Provision
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non-standard loans, moderate credit risk	1 per cent.-20 per cent.
Category III	Doubtful loans, considerable credit risk	21 per cent.-50 per cent.
Category IV	Problem loans, high credit risk	51 per cent.-100 per cent.
Category V	Bad loans	100 per cent.

Market Risk

Market risk arises from potential changes in the value of financial instruments due to changes in market prices, interest rates, volatilities and mismatches between market positions which are intended to offset one another. TFB's limits on market risks are set and managed by the Management Board.

Pursuant to TFB's Risk Assessment and Management Policy, market risks include currency, interest rate and stock market risks. Management of TFB's market risks is regulated by separate internal policies approved by the Management Board and/or the Board of Directors.

The general principles of TFB's market risk management policy are set out in the Currency Risk and Interest Rate Management Policies approved by the Management Board. The key techniques that TFB uses to manage market risk exposure are prescribed in the above mentioned separate policies. The market risk policies contain principles for establishing market limits for each of the market risks.

Interest Rate Risk

In the ordinary course of business, TFB is exposed to interest rate risk, which is the risk that TFB's interest income could decrease or its interest expense could increase based on adverse changes in market interest rates.

Authority of TFB's bodies in respect of interest rate risk management includes the following:

- the Board of Directors is responsible for adoption of the basic principles of the interest rate policy of TFB;
- the Management Board approves TFB's internal by-laws relating to interest rate management, determines the interest policy of TFB and manages its assets and liabilities;
- the Risk Analysis Department as a structural department of TFB is responsible for development of TFB's internal interest rate management policy and analytical support of the Management Board's administrative decisions in respect of the interest rate policy of TFB; and

- the Internal Control Service supervises the interest rate risk management policy and procedures approved by the above bodies.

TFB identifies the risks inherent in new products and activities and ensures these are subject to adequate procedures and controls before being introduced or undertaken. The Management Board or appropriate designated committee approves major hedging or risk management initiatives in advance.

TFB measures its vulnerability to loss under stressful market conditions and takes those results into account when establishing or reviewing its policies and limits for interest rate risk.

TFB's strategy and policy of managing interest rate risk are subject to approval by the Management Board. The Credit Committees are responsible for implementing TFB's interest rate risk policy with respect to the requisite identification, assessment, supervision and management of such risks.

The main instruments of interest rate management used by TFB include the following:

- development of interest rate policy;
- determining the limit for the so-called interest gap, which is calculated as the total of TFB's assets less liabilities that are exposed to changes in basic interest rates, whereby mutual correlation of such rates shall be taken into account;
- maintaining a balanced proportion of assets and liabilities exposed to interest rate changes; and
- determining internal and external key features important to the interest rate policy.

Additional instruments include imposing limits on the concentration of TFB's assets and liabilities with single counterparties or groups of affiliated counterparties and complying with the mandatory capital adequacy ratio with respect to the interest rate risk.

For the purposes of the Group's interest rate sensitivity calculation, the list of financial instruments sensitive to changes in interest rate is determined. For the interest rate risk sensitivity calculation, the Group does not take into account the instruments with maturity exceeding one year, non-monetary assets and liabilities, cash or balances on settlement accounts placed without a contract on payment, as well as mandatory cash balances with the CBR. Gap analysis is used to estimate interest rate risk sensitivity, i.e. assessment of interest rate risk resulting from mismatching of the maturities of financial instruments, including the risk of repricing of the financial instruments.

Currency Risk

TFB has assets and liabilities denominated in several foreign currencies, predominantly, in Roubles, U.S. Dollars and Euro. Currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. TFB is exposed to fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows, primarily in the context of TFB's foreign currency lending and trading in foreign currency securities and money market instruments.

The principal tool for management of the currency risk is to match the currencies in which assets and liabilities are denominated, which allows TFB to substantially eliminate the currency risk. For example, to the extent possible, TFB originates loans to customers in the currency of attracted funding. In addition, as part of its currency risk management strategy, TFB refinances foreign currency-denominated liabilities by funds attracted in the same currency. In addition, TFB sets internal limits and performs certain other measures aimed at reducing exchange rate risk, including limiting TFB's open currency position to 2 per cent. of TFB's own assets.

The Management Board of TFB adopted the Currency Risk Assessment and Management Policy whereby the currency risk assessment is based on the Value-at-Risk (the "**VaR**") method. The main methods used to restrict, supervise and manage currency risks at TFB include a system of limits on open currency position of TFB, maintaining currencies and amounts of TFB's open currency position in accordance with the current and proposed currency exchange rate dynamics, timely detection of current losses and planned profit, hedging currency risks with derivatives and diversifying TFB's currency basket, complying with mandatory ratios applicable to the currency basket.

While assessing currency risk, TFB does not take into account consolidated subsidiaries since the volume of foreign currency operations and balances is insignificant and thus the subsidiaries are not exposed to currency risk. The following bodies are engaged in the evaluation and management of currency risk:

- the Management Board approves internal regulations in the area of currency risk management, manages open currency positions and co-ordinates structural units whose operations have direct or indirect impact on currency risk;
- the Treasury Department is responsible for control over the compliance with open currency positions and established limits and operational management of currency risk with the purpose to get additional revenue and reduce currency risk level;
- the Risk Analysis Department develops and improves internal documents related to currency risk management, evaluation of currency risk and analytical support for adoption of management decisions by the Management Board, taking into consideration their impact on TFB's currency risk; and
- the Internal Control Service controls the compliance by TFB's other structural units with the main provisions and procedures of currency risk evaluation and management.

Limits established for managing currency risks are the general open currency position limits and open currency position limits set for single currencies. Such limits are subject to monitoring depending on the VaR ratio of different currency assets, their mutual correlation ratio and the ratio of such risks amount to TFB's own capital.

The table below sets out the Group's exposure to foreign currency exchange rate risk as at 31 December 2015.

	RUB	USD	Euro	Other	Precious metals	Total
<i>(in thousands of Roubles)</i>						
Financial assets						

Cash and cash equivalents	11,674,459	947,053	886,179	13,973	58,063	13,579,727
Mandatory cash balances with the CBR	891,824	-	-	-	-	891,824
Due from banks	1,385,899	1,093	-	-	-	1,386,992
Financial instruments at fair value through profit or loss	13,967,346	5,747,688	-	-	-	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	8,618,303	-	-	-	-	8,618,303
Securities lent	656,365	-	-	-	-	656,365
Loans to customers	111,774,783	8,554,860	952,065	-	-	121,281,708
Investments available-for-sale	6,705,716	-	-	-	-	6,705,716
Investments pledged as collateral under sale and repurchase agreements	3,012,640	-	-	-	-	3,012,640
Other financial assets	2,322,009	47,190	17,256	-	-	2,386,455
Total financial assets	161,009,344	15,297,884	1,855,500	13,973	58,063	178,234,764
Financial liabilities						
Due to the CBR	16,264,946	-	-	-	-	16,264,946
Due to banks	11,806,812	2,023,495	2,453,203	-	-	16,283,510
Customer accounts	92,311,817	17,000,653	2,464,229	2,257	196,929	111,975,885
Debt securities issued	15,856,426	158,507	-	-	-	16,014,933
Eurobonds issued	-	1,027,256	-	-	-	1,027,256
Subordinated borrowings and Eurobonds	5,766,962	4,542,256	-	-	-	10,309,218
Other borrowings	99,107	-	-	-	-	99,107
Other financial liabilities	363,622	11,944	3,575	-	199	379,340
Total financial liabilities	142,469,692	24,764,111	4,921,007	2,257	197,128	172,354,195
Net balance sheet position	18,539,652	(9,466,227)	(3,065,507)	11,716	(139,065)	5,880,569
Effect of derivatives	(12,385,628)	9,256,103	2,948,796	-	138,942	(41,787)
Net position	6,154,024	(210,124)	(116,711)	11,716	(123)	5,838,782

The table below sets out the Group's exposure to foreign currency exchange rate risk as at 31 December 2014.

	RUB	USD	Euro	Other	Precious metals	Total
<i>(in thousands of Roubles)</i>						
Financial assets						
Cash and cash equivalents	12,067,207	2,003,234	2,326,529	1,826	14,013	16,412,809
Mandatory cash balances with the CBR	1,067,447	-	-	-	-	1,067,447
Due from banks	1,189,126	844	-	-	-	1,189,970
Financial instruments at fair value through profit or loss	18,470,853	5,911,372	-	-	-	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	7,931,456	-	-	-	-	7,931,456
Securities lent	1,477,238	-	-	-	-	1,477,238
Loans to customers	92,223,376	4,024,823	475,618	-	-	96,723,817

	RUB	USD	Euro	Other	Precious metals	Total
	<i>(in thousands of Roubles)</i>					
Investments available-for-sale	4,886,645	-	-	26,241	-	4,912,886
Other financial assets	2,449,235	8,660	547	7,758	-	2,466,200
Total financial assets	141,762,583	11,948,933	2,802,694	35,825	14,013	156,564,048
Financial liabilities						
Due to the CBR	13,004,610	-	-	-	-	13,004,610
Due to banks	8,252,933	1,187,508	2,498,315	-	-	11,938,756
Customer accounts	81,489,914	6,226,089	2,223,837	203	220,283	90,160,326
Debt securities issued	20,213,528	145,799	40,732	-	-	20,400,059
Eurobonds issued	-	3,820,534	-	-	-	3,820,534
Subordinated borrowings and Eurobonds	3,099,990	3,500,379	-	-	-	6,600,369
Other borrowings	1,195,682	-	-	-	-	1,195,682
Other financial liabilities	458,327	9,237	3,299	-	32	470,895
Total financial liabilities	127,714,984	14,889,546	4,766,183	203	220,315	147,591,231
Net balance sheet position	14,047,599	(2,940,613)	(1,963,489)	35,622	(206,302)	8,972,817
Effect of derivatives	(4,752,169)	2,419,111	2,084,452	-	-	(248,606)
Net position	9,295,430	(521,502)	120,963	35,622	(206,302)	8,724,211

Currency risk estimation under VaR methodology for management accounting purposes is conducted by the Risk Analysis Department as at the first day of each month and is provided to TFB's management on a monthly basis.

Estimated VaR value is included into the overall estimated risk limit, the data on which is also provided to TFB's management. The Risk Analysis Department determines the aggregate risk limit at the first day of each month as the lower of the two following values:

- the amount of losses leading to reduction of equity below share capital; and
- the amount of losses leading to incompliance with the capital adequacy ratio.

The values calculated in this manner represent the aggregate risk limit up to the following date of estimation. If the aggregate estimated risk at the calculation date exceeds the established aggregate risk limit, it is reported to the Chairman of the Management Board so that the appropriate actions aimed at reduction of TFB's aggregate risk are taken.

VaR is an indicator that estimates the maximum possible amount of losses in the course of the set period of time at the set confidence level. This model includes the following principal assumptions and limitations:

- necessity to gather large volume of statistical data. In order for VaR estimation to be more accurate, it is necessary to use a large volume of data. However, if the data used is outdated, then current (and the more so future) risk will be evaluated on the basis of data that are not in compliance with the current market situation;
- using this method, TFB proceeds from the assumption that the natural logarithm of the amount of changes in currency exchange rates follows normal probability law; and

- the method does not apply to portfolios comprising instruments whose cost is a non-linear function of the underlying asset, e.g., for portfolios containing non-linear financial instruments (such as options).

The VaR calculation mechanism consists of several stages: (i) determining risk position; (ii) selection of forecast horizon and statistical data calculation; (iii) volatility calculation; (iv) selection of confidence level; and (v) VaR calculation.

The open currency position is calculated as the difference between the value of assets and the value of liabilities denominated in foreign currencies. Open currency position for each currency is restated into Rouble equivalent at the official exchange rate of the CBR at each calculation date. The total of open currency position is determined in accordance with regulatory acts of the CBR on the procedure for calculation of open currency positions.

The forecast horizon for calculation of currency risk is 20 days. Volatility for an individual currency is calculated on the basis of statistics of currency exchange rate changes in the course of 120 days. The amounts of change in exchange rates used for this purpose are taken for the recent six-month period. Portfolio volatility is calculated from the formula that takes into consideration the shares of currencies in the portfolio and currency covariance.

Stock Market Risk

Stock market risk is the risk of incurring losses as a result of unfavourable fluctuations of prices on equity instruments in TFB's securities portfolio and exchange rates for securities denominated and/or quoted in a currency other than the base currency.

The following management bodies are responsible for equity risk evaluation and management:

- the Management Board;
- the Financial Committee that is in charge of setting quantitative limits for the purpose of risk management within the scope of its authority;
- the Department for Active Operations in the Securities Market that is in charge of operational control, including checking compliance of each open position of the equity securities portfolio with stop-loss requirements, calculating volatility and duration values (for bonds) considered in making investment decisions and complying with limits for each employee of TFB set by business unit leaders;
- the Risk Analysis Department that is in charge of developing and improving TFB's internal documents on equity risk management, evaluating the level of equity risk and evaluating counterparties' creditworthiness for setting out limits on issuers;
- the Financial Controller that is in charge of the ongoing monitoring of compliance with limits and rules, constituting TFB's risk management procedures, participating in development of risk management technique/procedures and banking technologies and carrying out operational risk management procedures in respect of TFB's operations in the equity market; and
- the Internal Control Service.

TFB manages stock market risk on the basis of established limits: (i) total limit on open position on instruments exposed to securities risk; and (ii) open position limits on certain financial instruments in the equity portfolio.

The Risk Analysis Department and the Internal Control Service monitor the existing system of limits at least once a year.

The following instruments are included into the securities risk calculation under VaR methodology:

- quoted shares, including those sold in direct repo agreements;
- quoted debt instruments, including those sold in direct repo agreements; and
- derivative financial instruments whose underlying assets are securities.

Geographical Risk Concentration

In the tables below, financial assets and liabilities have been classified according to the Russian regions and countries in which the counterparty is located.

The table below sets out the geographical concentration of the Group's financial assets and liabilities as at 31 December 2015.

	Tatarstan Republic	Other regions of Russia	Other countries	Total
	<i>(in thousands of Roubles)</i>			
Financial assets				
Cash and cash equivalents	8,137,392	5,225,027	217,308	13,579,727
Mandatory cash balances with the CBR	-	891,824	-	891,824
Due from banks	398,606	988,386	-	1,386,992
Financial instruments at fair value through profit or loss	8,027,643	5,939,703	5,747,688	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	-	8,618,303	-	8,618,303
Securities lent	-	-	656,365	656,365
Loans to customers	85,930,631	27,600,158	7,750,919	121,281,708
Investments available-for-sale	6,120,216	585,500	-	6,705,716
Investments available-for-sale pledged as collateral under sale and repurchase agreements	-	3,012,640	-	3,012,640
Other financial assets	2,128,190	251,644	6,621	2,386,455
Total financial assets	110,742,678	53,113,185	14,378,901	178,234,764
Financial liabilities				
Due to the CBR	-	16,264,946	-	16,264,946
Due to banks	6,522,348	5,039,110	4,722,052	16,283,510
Customer accounts	74,225,776	37,656,116	93,993	111,975,885
Debt securities issued	721,339	15,293,594	-	16,014,933
Eurobonds issued	-	-	1,027,256	1,027,256
Subordinated borrowings and Eurobonds	5,766,962	-	4,542,256	10,309,218
Other borrowings	99,107	-	-	99,107

Other financial liabilities	344,002	35,138	200	379,340
Total financial liabilities	87,679,534	74,288,904	10,385,757	172,354,195
Net position	23,063,144	(21,175,719)	3,993,144	5,880,569
Total commitments and contingencies	10,151,360	6,647,695	422,880	17,221,935

The table below sets out the geographical concentration of the Group's financial assets and liabilities as at 31 December 2014.

	Tatarstan Republic	Other regions of Russia	Other countries	Total
<i>(in thousands of Roubles)</i>				
Financial assets				
Cash and cash equivalents	8,867,311	5,749,802	1,795,696	16,412,809
Mandatory cash balances with the CBR	1,049,555	17,892	-	1,067,447
Due from banks	707,370	482,600	-	1,189,970
Financial instruments at fair value through profit or loss	7,497,842	10,973,011	5,911,372	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	40,921	7,890,535	-	7,931,456
Securities lent	-	-	1,477,238	1,477,238
Loans to customers	70,665,698	22,270,861	3,787,258	96,723,817
Investments available-for-sale	4,835,153	51,492	26,241	4,912,886
Other financial assets	2,150,369	315,705	126	2,466,200
Total financial assets	95,814,219	47,751,898	12,997,931	156,564,048
Financial liabilities				
Due to the CBR	-	13,004,610	-	13,004,610
Due to banks	5,697,433	2,709,805	3,531,518	11,938,756
Customer accounts	58,484,015	31,258,899	417,412	90,160,326
Debt securities issued	300,201	20,099,858	-	20,400,059
Eurobonds issued	-	-	3,820,534	3,820,534
Subordinated borrowings and Eurobonds	2,099,995	999,995	3,500,379	6,600,369
Other borrowings	934,821	260,861	-	1,195,682
Other financial liabilities	431,313	34,543	5,039	470,895
Total financial liabilities	67,947,778	68,368,571	11,274,882	147,591,231
Net position	27,866,441	(20,616,673)	1,723,049	8,972,817
Total commitments and contingencies	7,074,887	9,855,576	77,227	17,007,690

Operational Risk

TFB is exposed to operational risk, which is the risk of losses resulting from inappropriate management and control procedures, incorrect decisions, system errors which relate to employee mistakes and abuse by employees of their positions, technical failures and misuse of TFB's property.

The Board of Directors adopts the general risk management policy, assesses the efficiency of risk management, approves the management structure of TFB essential for efficient operational risk management, adopts measures to be taken to ensure continuous financial business activities of TFB, including measures for extraordinary cases, and supervises the

executive bodies in respect of operational risk management. The Management Board organises efficient risk management and implementation of the relevant internal policies, adopts internal regulations on TFB's risk management, determines limits for monitoring operational risks and allocates duties on operational risk management. The Internal Control Service supervises and appraises the efficiency of activities of employees and managers in relation to operational risk management. The Financial Controller determines compliance of TFB's management and employees with the legislation and internal regulations in respect to securities markets.

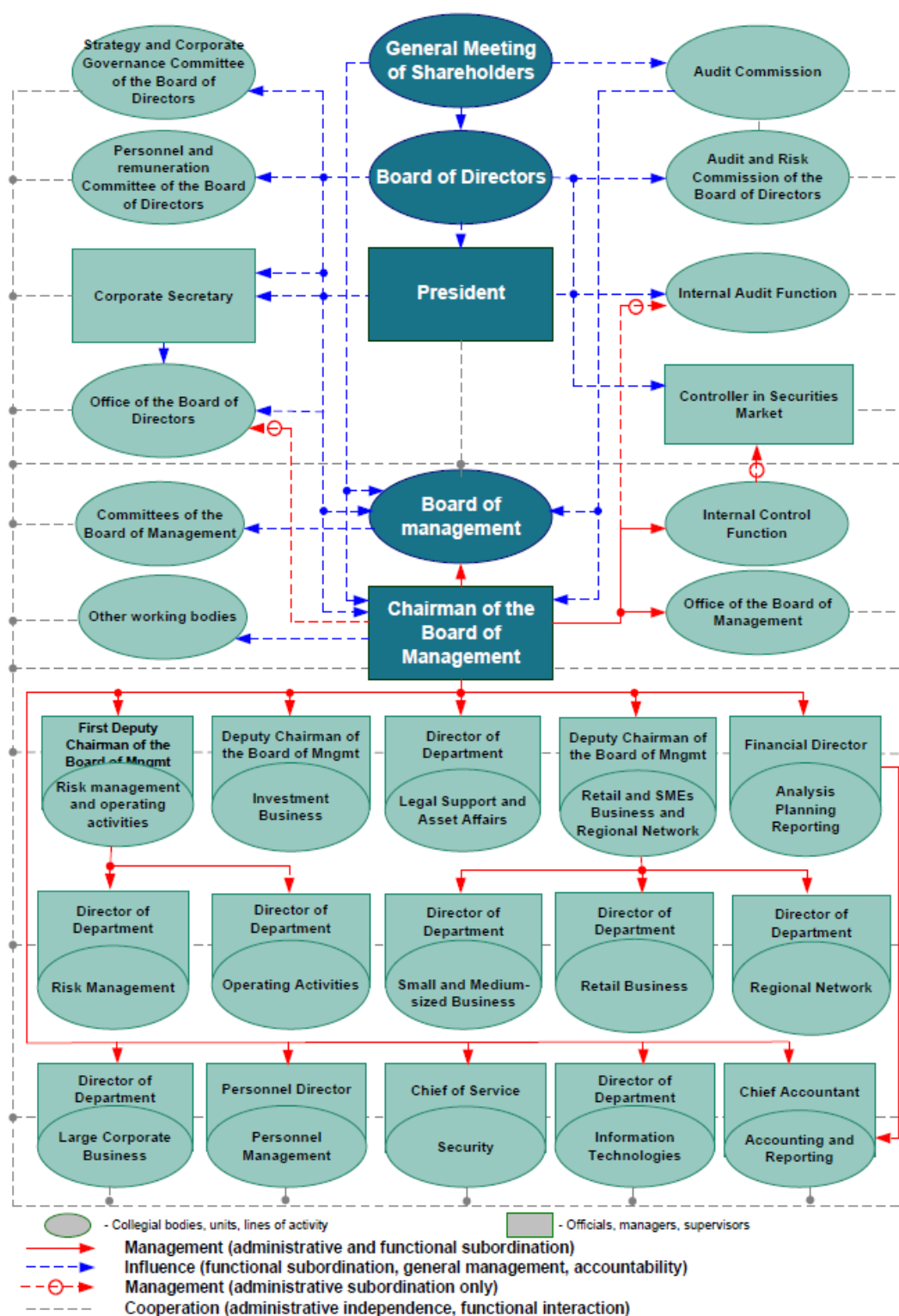
TFB has not experienced any material critical technical system failures over the past eight years. In order to reduce any such possible loss, TFB maintains back-up servers which are located in different locations within TFB's head-office in Kazan, the capital of the Republic of Tatarstan.

Other Risks

The Risk Management and Assessment Policy of TFB lists several other risks and relevant risk management policies implemented for the control thereof. These include some additional financial risks such as concentration risk, systematic risk, compliance risk, strategy risk, risks related to the Russian Federation and its regions, and several non-operational functional risks and risk of reputation damage. The Risk Management and Assessment Policy provides guidelines for management instruments and the basic authority of TFB's bodies for these risks.

MANAGEMENT

The following chart sets out TFB's management structure.



Introduction

In accordance with TFB's charter and Russian legislation governing joint stock companies, TFB is principally governed by its shareholders through their annual and extraordinary meetings (each a "**General Shareholders' Meeting**"), its board of directors (the "**Board of Directors**"), its management board (the "**Management Board**") and a chairman of the Management Board (the "**Chairman of the Management Board**").

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

A brief description of the General Shareholders' Meeting, the Board of Directors and the Management Board is set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is TFB's highest governance body. An annual General Shareholders' Meeting must be held every year and an extraordinary General Shareholders' Meeting can be called by the Board of Directors, amongst other things, at its discretion or request of the shareholders holding not less than 10 per cent. of the voting shares. Each ordinary share of TFB carries the right to cast one vote at any General Shareholders' Meeting.

TFB's General Shareholders' Meeting has the power to decide the following issues, among others:

- amendments or modifications of the TFB's Charter;
- reorganisation or liquidation of TFB, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- election and early termination of the members of the Board of Directors;
- determination of the amount, the nominal value and the type of authorised shares and rights granted to holders of such shares;
- increase and decrease of TFB's share capital;
- election and early termination of the Audit (revision) Commission members;
- appointment of TFB's external auditor;
- approval of the annual report and the annual financial statements;
- payment (announcement) of dividends;

- approval of TFB's participation in financial groups, holdings and associations;
- adoption of internal regulation documents;
- splitting, consolidation and delisting of TFB's shares; and
- certain other issues provided for by law and under TFB's charter.

Board of Directors

The Board of Directors is responsible for the general management of the TFB's operations. The Board of Directors meets as often as necessary but not less than once every two months.

According to Russian legislation governing joint-stock companies and the Charter of TFB the Board of Directors has the power to decide, among others, the following issues:

- execution of the decisions made by the General Shareholders' Meeting of TFB;
- determination of TFB's business priorities and strategy;
- approval of interim and annual budgets of TFB;
- convening of annual and extraordinary General Shareholders' Meetings;
- setting up branches and representative offices of TFB;
- approval of the agenda of the General Shareholders' Meeting and other issues in connection with preparation for and holding of General Shareholders' Meeting;
- appointment and removal of the members of the Management Board and the Chairman of the Management Board;
- adoption of decision on use of reserve and other funds;
- providing recommendations on the amount of dividends to be paid; and
- other issues, as provided for by the Joint Stock Companies Law and TFB's Charter.

TFB's Charter provides that its Board of Directors shall consist of at least 7 members. It is recommended that one third of the directors of TFB should be independent directors. Members of the Board of Directors are elected by the annual General Shareholders' Meeting till the next annual General Shareholders' Meeting and may be re-elected an unlimited number of times. Currently, there are 10 members on TFB's Board of Directors including 5 independent directors.

The name, first year of appointment and position for each member of the Board of Directors of TFB are set out below.

Name	Year of Appointment	Position
Ildar Khalikov	2014	Chairman
Alexander Belgorodsky	2015	Independent Director

Ildus Mingazetdinov	2014	Independent Director
Danil Volkov	2014	Non-executive Director
Yelena Murashova	2013	Independent Director
Robert Musin	2014	Non-executive Director
Farit Musin	2014	Non-executive Director
Airat Sabizanov	2015	Non-executive Director
Alexander Slesarenko	2013	Independent Director
Alexey Terekhov	2011	Independent Director

Ildar Khalikov has been the Chairman of the Board of Directors since August 2014. From 2010 Mr. Khailkov has been the Prime Minister of the Republic of Tatarstan. From 2015 Mr. Khalikov has been the chairman of the board of directors of JSC Tatspirom, JSC Tatenergosbyt, JSC Innopolis City, OJSC Setevaya Kompaniya, OJSC Generiruyushchaya Kompaniya, JSC Upravlayushchaya Kompaniya Tatenergo and JSC Kazan Arena. He is also a member of the Board of Directors of PJSC Kamaz. Mr. Khalikov graduated from the Kazan State University named after V.I. Ulyanov-Lenin in 1993.

Alexander Belgorodsky has been an independent director of Tatfondbank since May 2015. He is a member of the Strategy and Corporate Governance Committee and the Audit and Risks Committee. Previously Mr. Belgorodsky was a member of the Board of Directors during 2012-2014. From 2010 to 2011 Alexander Belgorodsky was the economics and finance counsel to the chairman of the board of directors of Sigma manufacturing group. From 2011 to 2014 Mr. Belgorodsky worked at PricewaterhouseCoopers Russia B.V. Currently he serves as a senior manager of strategy at PJSC Lukoil. Mr. Belgorodsky graduated from Saratov State University named after N. Chernyshevsky in 2004 with the specialisation in economics and the University of Salford in 2008.

Ildus Mingazetdinov has been a member of the Board of Directors since August 2014. He is a member of the Strategy and Corporate Governance Committee and the Personnel and Remuneration Committee. From 2006 to June 2007, Mr. Mingazetdinov acted as the Deputy Chairman of the Board of Directors. From 2004 to 2006, he was the Chairman of the Board of Directors. From 1998 to 2004, Mr. Mingazetdinov acted as the Chairman of the Management Board. From 1996 to 1998, he was a member of the Board of Directors. Mr. Mingazetdinov has been a delegate of the fourth State Council of the Republic of Tatarstan since March 2009. In March 2004, Mr. Mingazetdinov was elected delegate and a member of the Budget, Tax and Finance Committee of the third State Council of the Republic of Tatarstan. Mr. Mingazetdinov graduated from the Kazan State Institute for Finance and Economics named after V.V. Kuibyshev in 1981. He is also Ph.D. in economics.

Danil Volkov has been a member of the Board of Directors since May 2014. He is a member of the Audit and Risks Committee. From 2002 to 2012 he was an assistant of the Chairman of the Board of Directors of PJSC Tatneft. From 2012 Mr. Volkov has been the Deputy Minister of Finance the Republic of Tatarstan. From 2015 he has also been a Member of the Board of Directors of JSC Tatspirom. Mr. Volkov graduated from the Kazan Finance-Economic Institute in 1998.

Yelena Murashova has been a member of the Board of Directors since May 2013. She is a member of the Personnel and Remuneration Committee. From 2010 to 2014 she was a lecturer at Higher School of Economics. From 2012 Ms. Murashova is the CEO of LLC Pay Lab. She graduated from the Moscow Aviation Institute in 1996.

Robert Musin has been a member of the Board of Directors since May 2014. Mr. Musin is a Chairman of the Strategy and Corporate Governance Committee. He is also the Chairman of the Management Board of Tatfondbank since March 2016. From 2010 to 2013 Mr. Musin acted as the Chairman of the Management Board of TFB. From 2006 to 2013 Mr. Musin acted as the Chairman of the Board of Directors of PJSC AK Bars Bank. He graduated from the Kazan State Institute for Finance and Economics named after V.V. Kuibyshev in 1985 with specialisation in economics.

Farit Musin has been a member of the Board of Directors since May 2014. He is a member of the Audit and Risks Committee and the Personnel and Remuneration Committee. From 2009 Mr. Musin serves as the Deputy Minister of Land and Property Relations of the Republic of Tatarstan. From 2015 he has acted as the Chairman of the Board of OJSC Gostinica Uyp, OJSC Bezopasnost Dorozhnogo Dvizheniya and CJSC Tat-Avia. Mr. Musin graduated from the Kazan State University named after V.I. Ulyanov-Lenin in 1986.

Ayrat Sabizanov has been a member of the Board of Directors since December 2015. He is a member of the Strategy and Corporate Governance Committee. Currently Mr. Sabizanov is the deputy CEO at OJSC Generiruyushchaya Kompaniya. From 2015 he has been a member of the board of PJSC Generiruyushchaya Kompaniya. Mr. Sabizanov graduated from the Moscow Energy Institute in 1998. He also has MBA degree from the Academy of National Economy.

Alexander Slesarenko has been a member of the Board of Directors since May 2013. He is a member of the Audit and Risks Committee and the Personnel and Remuneration Committee. From 2012 to 2013 he held a position of Managing Director of BDO Unicon Consulting. Mr. Slesarenko graduated from the Bauman Moscow State Technical University in 1983. He holds a PhD in technical science.

Alexey Terekhov has been an independent director of Tatfondbank since May 2011. He is a member of the Strategy and Corporate Governance Committee and the Audit and Risks Committee. Alexey Terekhov has been the partner and vice-president of FBK since 1996. He graduated from the Moscow State University in 1991 with specialisation in mechanics and mathematics and Financial Academy under the Government of Russia in 1997 with specialisation in finance.

The business address of the Board of Directors is 43/2, Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russia.

Management Board and the Chairman of the Management Board

The Management Board is the collective executive body. The members of the Management Board are elected and appointed by the Board of Directors. Management Board and the Chairman of the Management Board are responsible for TFB's day-to-day management and administration of the matters which do not fall within the scope of authority of the General Shareholders Meeting and the Board of Directors.

The Chairman of the Management Board acts as the chief executive officer of TFB and is elected and dismissed by the Board of Directors.

The meetings of the Management Board are called by the Chairman of the Management Board. The decisions of the Management Board are adopted by a simple majority of votes

provided that a quorum of not less than half of the elected members of the Management Board is present. Currently, there are 8 members on TFB's Management Board.

The name, qualifications and certain other information for each member of the Management Board are set out below:

Name	Year of Appointment	Position
Robert Musin	2016	Chairman
Ramil Nasyrov	2015	First Deputy Chairman of the Management Board
Nailya Tagirova	2015	Deputy Chairman of the Management Board
Vadim Merzlyakov	2013	Deputy Chairman of the Management Board
Sergey Meshchanov	2011	Deputy Chairman of the Management Board
Guzel Fattakhova	2015	Member
Rustam Khakimov	2016	Deputy Chairman of the Management Board
Roza Yakushkina	2016	Member

Robert Musin has acted as the Chairman of the Management Board of TFB since March 2016. From 2010 to 2013 Mr. Musin also acted as the Chairman of the Management Board of TFB. He has also been a member of the Board of Directors since May 2014. From 2006 to 2013 Mr. Musin acted as the Chairman of the Board of Directors of PJSC AK Bars Bank. He graduated from the Kazan State Finance and Economics Institute named after V.V. Kuibyshev in 1985 with specialisation in economics.

Ramil Nasyrov has been the First Deputy of the Chairman of the Management Board and a member of the Management Board since December 2015. Mr. Nasyrov was a member of the Board of Directors of TFB in 2015. Prior to joining TFB, from 2014 to 2015 he was the Director of Internal Audit in Ak Bars Bank. Mr. Nasyrov graduated from the Kazan National Technical Research University in 2004. He also graduated from the Kazan Federal University in 2013.

Nailya Tagirova has been the Deputy Chairman of the Management Board and a member of the Management Board since June 2015. From 2013 to 2015 she acted as the Chairman of the Management Board. She has been working at TFB since 1995. She graduated from the Kazan State Institute for Finance and Economics named after V.V. Kuibyshev in 1994.

Vadim Merzlyakov has been the Deputy Chairman of the Management Board and a member of the Management Board since March 2013. He has been working at TFB since 2003. Mr. Merzlyakov graduated from the Kazan State Institute for Finance and Economics named after V. V. Kuybyshev in 2003. He also has MBA degree.

Sergey Meshchanov has been the Deputy Chairman of the Management Board and a member of the Management Board since February 2011. Prior to joining TFB, from 2008 to 2010 Mr. Meshchanov was the vice-president at PJSC VTB 24. From 2014 he has been a member of the Board of Directors of PJSC Radiotekbank. Mr. Meshchanov graduated from the Russian Economic Academy named after G.V. Plekhanov in 2004.

Guzel Fattakhova has been a member of the Management Board since April 2015. She has been working at TFB since 2009. From 2015 Guzel Fattakhova has been the Chairman of the Board of Directors at PJSC Timerbank. Ms. Fattakhova graduated from the Kazan State Institute for Finance and Economics in 1999.

Rustam Khakimov has been the Deputy Chairman of the Management Board and a member of the Management Board since July 2016. Prior to joining TFB, Mr. Khakimov acted as the Chairman of the Management Board of PJSC Radiotechbank. Mr. Khakimov graduated from the Tomsk State University of Architecture and Building in 2003.

Roza Yakushkina has been a member of the Management Board since July 2016. From 2014 she has been a Director of the Department of Large Business and Project Finance. Ms. Yakushkina graduated from the Kazan Agricultural Academy in 2001.

The business address of the Management Board is 43/2, Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russia.

Other Directorship

As set out in the biographies above, certain directors and executive officers of TFB also serve as directors or officers, or hold shares, in other companies. Furthermore, additional directorships, officerships or shareholdings could be obtained by, or appointed to, such persons in the future. As a result, potential conflicts of interest could arise between these directors' and officers' duties to TFB and their duties arising from their positions or shareholdings in such other entities. Such other entities may directly or indirectly provide services that compete or may in the future compete with the services offered by TFB or may receive loans or other financing from TFB. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by TFB's disinterested directors or shareholders. In addition, TFB seeks to identify and, to the extent possible, prevent any conflict of interest which may involve TFB.

Corporate governance

TFB has developed corporate governance procedures in accordance with the best practices. The bank has implemented principles of corporate governance established by the OECD and the Basel Committee on Banking Supervision. The aim of the corporate governance system of TFB is to treat every shareholder of TFB equally. It is proposed that in 2016 TFB would develop its corporate governance procedures and update its internal Corporate Governance Code.

The Board of Directors is responsible for the issues of business strategy and corporate governance, holds effective control over the Management Board and the Chairman of the Management Board.

The Board of Directors may form permanently operating Committees. These are consultative bodies which are not entitled to act on behalf of the Board of Directors. As at the date of this Prospectus, there are three such committees: the Strategy and Corporate Governance Committee, the Audit and Risks Committee and the Personnel and Remuneration Committee.

Control over the TFB's financial activity is carried out by internal audit procedures as well as external auditor and the Audit (revision) commission.

SHAREHOLDERS

Share Capital

As at 1 January 2016, the nominal amount of TFB's share capital was RUB 14,423,000,000 divided into 1,442,300,000 registered ordinary (voting) shares with a nominal value of RUB10 each. All shares were placed and the authorised capital of TFB was paid in full. TFB's Charter allows for up to 4,817,700,000 declared registered ordinary shares with a nominal value of RUB 10 each. The Charter of TFB does not allow preference shares.

Ownership

The following table sets out certain information regarding the ownership of the ordinary shares of TFB as at the date of this Prospectus.

No.	Name	Number of shares	Shareholding (per cent.)
1.	LLC Novaya Neftekhimiya	291,938,028	20.241
2.	JSC Tatspiromprom ⁽¹⁾	250,000,000	17.333
3.	Ministry of Land and Property Regulations ⁽²⁾	145,500,000	10.088
4.	CUIF Vector Razvitiya.....	125,990,000	8.735
5.	OJSC Mortgage Agency of the Republic of Tatarstan ⁽³⁾	125,990,000	8.735
6.	CJSC Gelio-Polus	93,236,635	6.464
7.	OJSC ARTUG	74,862,857	5.191
	Sub-total for the above 7 shareholders	1,107,517,520	76.787
	Sub-total for others (with shares amounting to less than 5 per cent. each)	334,782,480	23.213
	Total	1,442,300,000	100.00

(1), (3) Both JSC Tatspiromprom and OJSC Mortgage Agency of the Republic of Tatarstan are wholly owned by the Republic of Tatarstan.

(2) The Ministry of Land and Property Regulations is an administrative body of the Republic of Tatarstan, accordingly, the relevant stake is wholly controlled by the Republic of Tatarstan.

In July 2016, TFB placed additional shares with the aggregate nominal amount of RUB 3 billion, which, according to TFB, is expected to increase the beneficial ownership of the Republic of Tatarstan to over 50 per cent. and evidences the strategic importance of TFB and its business for Tatarstan and the Republic's willingness to continue business cooperation.

For a discussion of the rights of TFB's shareholders, see "*Management – General Shareholders' Meeting*".

Dividends

Dividend policy is regulated by TFB's Charter and the Dividend Policy.

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

The recommended amount of dividend payments is determined on the basis of TFB's financial results at year end, and is normally not less than 10 per cent. of net profit under RAS.

RELATED PARTIES TRANSACTIONS

IAS 24 "*Related Party Transactions*" contains a definition of related parties, which are, broadly, parties under common control or one party controlling the other party or being capable of exercising significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

TFB is a part of a group of related companies. Two individuals (namely, Mr. R. Musin and Mr. I. Mingazetdinov, a beneficial owner of OJSC ARTUG (see "*Shareholders*")) have significant influence on these related companies, with Mr. Musin holding a controlling share in LLC Novaya Neftekhimiya. This group includes different trading, manufacturing, agricultural, food processing and financial companies and is in its development stage. The entities in this group of related companies are closely interrelated and there is no dominant parent company. Transactions with members of this group of related companies are disclosed in the table below as transactions with other related parties.

As of the date of this Prospectus, the government of the Republic of Tatarstan directly and indirectly held an interest of 45.3 per cent. in TFB's share capital, the major portion of which (36.1 per cent. of TFB's share capital) is owned by JSC Tatspirom, the Ministry of Land and Property Regulations and OJSC Mortgage Agency of the Republic of Tatarstan which are owned by the Republic of Tatarstan. Thus, the Republic of Tatarstan can exercise significant influence over TFB. Under IFRS, as at the date of this Prospectus the Government of the Republic of Tatarstan is a related party of the Group.

Banking transactions are entered into with shareholders with significant influence, key management and companies, with which TFB has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

See Note 22 to the Interim Financial Statements and Note 37 to the Annual Financial Statements.

The table below sets out the outstanding balances with related parties as at 30 June 2016.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
<i>(unaudited)</i>					
Cash and cash equivalents (<i>contractual interest rate: 11%</i>)	-	-	105,569	-	105,569
Due from banks (<i>contractual interest rate: 1-11%</i>)	-	-	436,344	-	436,344
Financial instruments at fair value through profit or loss.....	-	-	7,790,770	-	7,790,770
Loans to customers, gross (<i>contractual interest rate: 7%-25%</i>)	5,202,445	25,846	7,954,483	113,965	13,296,739
Allowance for loan impairment.....	(185,088)	(59)	(820,503)	(4,168)	(1,009,818)
Investments available-for-sale (<i>contractual interest rate: 15%</i>)	625,190	-	-	-	625,190
Other assets	997,413	58	2,485,708	527	3,483,706
Due to banks (<i>contractual interest rate: 11-12%</i>)	-	-	(6,301,444)	-	(6,301,444)
Customer accounts:					
- current and settlement accounts (<i>contractual interest rate: 0%</i>)	(8,847)	(3,767)	(212,525)	(31)	(225,170)
- term deposits (<i>contractual interest rate: 1%-12%</i>)	(2,721)	(3,722)	(2,839)	(153,990)	(163,272)
Other liabilities	-	-	(2,211)	-	(2,211)
Subordinated borrowings (<i>contractual interest rate: 8%-12%</i>)	(1,349,996)	-	-	(4,516,963)	(5,866,959)
Obligation to purchase interest in a subsidiary	-	-	(32,065)	-	(32,065)
Non-controlling interest	(1,353,228)	-	(144,281)	-	(1,497,509)
- Within liabilities.....	(1,340,967)	-	(72,473)	-	(1,413,440)
- Within equity	(12,261)	-	(71,808)	-	(84,069)
Liabilities on repurchase of loans assigned	-	-	524,291	-	524,291

The table below sets out the income and expense items with related parties as at 30 June 2016.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
<i>(unaudited)</i>					
Interest income	136,785	2,237	356,227	9,014	504,263
Interest expense	(77,573)	(2,485)	(212,180)	(234,058)	(526,296)
Reversal of allowance/(allowance) for impairment of assets.....	6,009	14	(106,537)	769	(99,745)

Fee and commission income	6,212	54	16,204	23	22,493
Fee and commission expense	(826)	-	(3,131)	-	(3,957)
Net gain from foreign currencies	1,464	3,069	-	-	4,533
Income from derivative financial instrument	1,149,090	-	-	-	1,149,090
Other operating income.....	-	-	558	-	558
Administrative and other operating expenses....	-	(215)	(59)	(619)	(893)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	-	-	(984)	-	(984)
Loss attributable to non-controlling interests	(930)	-	(5,449)	-	(6,379)

The table below sets out the aggregate amounts lent to and repaid by related parties as at 30 June 2016.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i> <i>(unaudited)</i>					
Amounts lent to related parties during 6 month of the year 2016	766,946	1,351	1,747,710	-	2,516,007
Amounts repaid by related parties during 6 month of the year 2016	(220,957)	(5,797)	(369,150)	(3,334)	(599,238)

The table below sets out the outstanding balances with related parties as at 31 December 2015.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
Due from banks (<i>contractual interest rate: 1%</i>)	-	-	397,604	-	397,604
Financial instruments at fair value through profit or loss.....	-	-	8,027,643	-	8,027,643
Loans to customers, gross (<i>contractual interest rate: 7%-25%</i>)	4,656,456	30,292	6,575,923	117,299	11,379,970
Allowance for loan impairment.....	(191,097)	(73)	(713,966)	(4,937)	(910,073)
Investments available-for-sale (<i>contractual interest rate: 15%</i>)	911,132	-	-	-	911,132
Other assets	-	3	93	808	904
Due to banks (<i>contractual interest rate: 11-15%</i>)	-	-	(5,648,169)	-	(5,648,169)
Customer accounts:					
- current and settlement accounts (<i>contractual interest rate: 0%</i>)	(87,842)	(6,030)	(30,819)	(51)	(124,742)
- term deposits (<i>contractual interest rate: 1%-16%</i>)	(48,209)	(69,716)	(14,030)	(70,303)	(202,258)
Other liabilities	-	-	(1,589)	-	(1,589)

Subordinated borrowings (<i>contractual interest rate: 8%-12%</i>)	(1,249,997)	–	–	(4,516,965)	(5,766,962)
Obligation to purchase interest in a subsidiary	–	–	(32,076)	–	(32,076)
Non-controlling interest	(1,481,540)	–	(148,603)	–	(1,630,143)
- Within liabilities.....	(1,468,373)	–	(71,490)	–	(1,539,863)
- Within equity	(13,167)	–	(77,113)	–	(90,280)
Liabilities on repurchase of loans assigned	–	–	98,405	–	98,405

The table below sets out the income and expense items with related parties as at 31 December 2015.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
Interest income	123,028	3,052	841,869	17,127	985,076
Interest expense	(108,846)	(9,089)	(608,203)	(285,323)	(1,011,461)
Reversal of allowance/(allowance) for impairment of assets.....	(146,102)	(2)	451,256	1,740	306,892
Fee and commission income	940	166	5,956	24	7,086
Fee and commission expense	–	–	(31,307)	–	(31,307)
Net gains from foreign currencies	302	34	46	–	382
Losses from derivative financial instrument.....	(1,749,472)	–	–	–	(1,749,472)
Other operating income.....	8	3	1,323	–	1,334
Administrative and other operating expenses....	(2,220)	(856)	(107)	(422)	(3,605)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	(79,683)	–	(1,456)	–	(81,139)
Loss attributable to non-controlling interests	(29)	–	(171)	–	(200)
Net gain from the acquisition of a subsidiary	–	–	1,314,574	–	1,314,574

In 2015, equity includes RUB 650 million received from the write-off of obligations to a shareholder and RUB 227.9 million paid in favour of shareholders for the acquisition of shares in a Russian company from a shareholder of TFB at a price exceeding the fair value.

The table below sets out the aggregate amounts lent to and repaid by related parties as at 31 December 2015.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
Amounts lent to related parties during the year	4,082,361	3,166	2,642,429	16,500	6,744,456

Amounts repaid by related parties during the year	(249,289)	(4,234)	(3,509,185)	(23,769)	(3,786,477)
Change in related parties	(33,842)	1,718	2,464	–	(29,660)

The table below sets out the outstanding balances with related parties as at 31 December 2014.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
Due from banks (<i>contractual interest rate: 1%</i>)	–	–	351,110	–	351,110
Financial instruments at fair value through profit or loss.....	–	–	5,164,027	–	5,164,027
Loans to customers, gross (<i>contractual interest rate: 6%-18%</i>)	857,226	29,642	7,440,215	124,568	8,451,651
Allowance for loan impairment.....	(44,995)	(71)	(1,165,222)	(6,677)	(1,216,965)
Investments available-for-sale (<i>contractual interest rate: 14%</i>)	1,318,867	–	–	–	1,318,867
Other assets	1,639,985	2	478	–	1,640,465
Due to banks (<i>contractual interest rate: 8-20%</i>)	–	–	(3,699,582)	–	(3,699,582)
Customer accounts:					
- current and settlement accounts (<i>contractual interest rate: 0%</i>)	(42,582)	(2,170)	(97,813)	(1,877)	(144,442)
- term deposits (<i>contractual interest rate: 0%-23%</i>)	(38,604)	(36,996)	(10,611)	(342,214)	(428,425)
Debt securities issued (<i>contractual interest rate: 0%</i>).....	–	–	(300,201)	–	(300,201)
Other liabilities	–	–	(2,542)	–	(2,542)
Subordinated borrowings (<i>contractual interest rate: 8%-13%</i>)	(999,995)	–	(3,500,379)	(2,099,995)	(6,600,369)
Obligation to purchase interest in a subsidiary	–	–	(32,078)	–	(32,078)
Non-controlling interest	(1,570,321)	–	(216,288)	–	(1,786,609)
- Within liabilities.....	(1,557,345)	–	(70,034)	–	(1,627,379)
- Within equity	(12,976)	–	(146,254)	–	(159,230)

The table below sets out the income and expense items with related parties for the year ended 31 December 2014.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
<i>(in thousands of Roubles)</i>					
Interest income	34,651	666	573,036	14,456	622,809
Interest expense	(94,891)	(2,989)	(437,259)	(186,558)	(721,697)

Reversal of allowance/(allowance) for impairment of assets.....	12,350	(67)	(525,909)	(2,127)	(515,753)
Fee and commission income	452	144	1,438	82	2,116
Fee and commission expense	(2,127)	–	(46,522)	–	(48,649)
Net gains (losses) from foreign currencies	885	394	13	–	1,292
Income from agency operations related to third party property insurance.....	–	–	59,111	–	59,111
Other operating income.....	–	–	1,574	291	1,865
Administrative and other operating expenses....	(8,972)	(51,476)	(121)	–	(60,569)
Profit attributable to non-controlling interests...	41,604	–	3,006	–	44,610

The table below sets out the aggregate amounts lent to and repaid by related parties for the year ended 31 December 2014.

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
	<i>(in thousands of Roubles)</i>				
Amounts lent to related parties during the year.....	4,749,875	29,682	17,133,192	38,663	21,951,412
Amounts repaid by related parties during the year	(5,198,484)	(348)	(13,272,819)	(17,411)	(18,489,062)
Change in related parties	–	(629)	(371,519)	–	(372,148)

The table below presents the key management compensation for the years ended 31 December 2015 and 31 December 2014.

	2015	2014
	<i>(in thousands of Roubles)</i>	
Salaries	30,520	34,000
Short-term bonuses	9,735	17,513
Total	40,255	51,513

The proportion of the Group's gross loans issued to related parties as a percentage of the Group's total tier 1 capital increased to 107.2 per cent. as at 31 December 2015 from 83.8 per cent. as at 31 December 2014.

FINANCIAL REVIEW

The following discussion and analysis of the Group's operating and financial results is based on, and should be read in conjunction with, the IFRS Financial Statements prepared in accordance with IFRS as promulgated by the IASB. Prospective investors should read the following discussion together with the whole of this Prospectus, including "Risk Factors" and the Group's IFRS Financial Statements (including notes thereto) and should not rely solely on the information set out in this section. See "Selected Consolidated Financial Information".

The following discussion includes certain forward-looking statements that, although based on assumptions that the Group's management considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Prospectus. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Forward-Looking Statements" and "Risk Factors" in this Prospectus. All statements other than statements of historical fact, such as statements regarding the Group's future financial position and risks and uncertainties related to the Group's business, plans and objectives for future operations, are forward-looking statements.

Overview

According to *Banki.ru*, a Russian on-line analytical resource, as of July 2016, TFB was ranked the second largest bank in the Republic of Tatarstan. TFB offers a wide range of banking services to both corporate (including SMEs) and retail clients, with a particular focus on the Republic of Tatarstan. TFB's principal activities comprise (i) corporate banking services such as lending, deposit taking, payment and account services, international settlements, trade finance, correspondent banking, interbank lending, payroll services and corporate plastic cards, (ii) retail banking services such as consumer finance products (consumer loans, mortgage loans and auto loans), deposit taking, payment and account services, and debit and credit cards, as well as other retail banking services and (iii) investment banking operations such as transactions in securities, securities management services, broker/dealer services, currency trading, asset management services and custody services.

As of 30 June 2016, the Group was the 43rd largest banking group in Russia by total assets and the 58th largest banking group by own capital and was the 42nd largest banking group in Russia by total assets and the 48th largest banking group in Russia by own capital as of 31 December 2015, based on first half 2016 data and year-end 2015 data, respectively, for individual banks that constitute Russian banking groups from Interfax-CEA. (Source: *Interfax-CEA. Interfax-100. Banks in Russia. Principal operational indicators*). See "Presentation of Financial and Other Information—Market Information Derived from Third Parties".

The Group's distribution network consists of its head office in Kazan, 5 branches and 88 other outlets in 16 constituents of the Russian Federation, including Tatarstan, Moscow, St.Petersburg, Nizhny Novgorod Region, Chuvashia Republic and Bashkortostan Republic. In addition, as at 30 June 2016, the Group distributed its products and services through 480 ATMs and various remote access channels, such as Internet banking and telephone banking. The Group's geographic focus is predominantly on the Republic of Tatarstan and neighbour

regions. As at 30 June 2016, the Group's client base included approximately 37,000 corporate clients, 35,000 small business clients and 525,000 retail clients.

As of 30 June 2016, the Group had RUB 199,686 million in total assets and RUB 4,496 million in total equity attributable to TFB's shareholders, compared to RUB 181,502 million and RUB 5,918 million, respectively, as of 31 December 2015 and RUB 160,468 million and RUB 10,096 million, respectively, as of 31 December 2014.⁴

For the six months ended 30 June 2016, the Group generated a total comprehensive loss of RUB 2,993 million compared to a total comprehensive loss of RUB 2,554 million for the six months ended 30 June 2015. The Group's total comprehensive loss for the year ended 31 December 2015 was RUB 6,421 million, compared a total comprehensive loss of RUB 1,718 million for the year ended 31 December 2014.

The IFRS Financial Statements consolidate CJSC "TFB Aktiv", IC "TFB Finance" LLC, PJSC NCB "Radiotechbank", "Gazovik" LLC and Sovetsky. For a more detailed description of TFB's consolidated subsidiaries and assets, see "*Business - Subsidiaries*".

Significant Accounting Policies

The accounting policies for the Group's business are based on IFRS principles. The Group's accounting policies are integral to understanding its financial condition and results of operations presented in the IFRS Financial Statements included elsewhere in this Prospectus. The Group's summary of accounting policies are described in Note 4 of the 2015 Financial Statements and Note 4 of the 2014 Financial Statements.

The preparation of financial statements in accordance 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 judgments 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.

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

Information about significant areas of estimation uncertainty and critical judgments made by the Group's management in the application of IFRS that have a significant effect on the amounts recognised in the IFRS Financial Statements are described in Note 3 of the 2015 Financial Statements and Note 3 of the 2014 Financial Statements.

⁴ See "*Risk Factors — Risks Relating to TFB's Business and Industry*" and " — *Significant Accounting Policies*".

Significant Factors Affecting Results of Operations

The Group's results of operations are affected by the acquisitions made by the Group as well as a number of external factors, including Russian macroeconomic situation and currency exchange rate fluctuations.

Business Combinations

On 31 July 2015, the Group acquired a 100 per cent. interest in "Gazovik" LLC, an agricultural company engaged in crop and livestock production from an associate of TFB's shareholders for RUB 110 million. The Group's interest was in the acquisition of the land assets of investment nature. The Group recorded gain from the acquisition of "Gazovik" LLC in the amount of RUB 1,315 million.

On 27 January 2016, Closed-end Private Equity Mutual Fund "Professional" acquired 100 per cent. shares in JSC "Eidos-Dnaform" for the consideration of RUB 100 thousand. As a result of an additional issue of shares, the interest of Closed-end Private Equity Mutual Fund "Professional" in JSC "Eidos-Dnaform" decreased to 50 per cent. plus 1 share. JSC "Eidos-Dnaform" is mainly engaged in production of equipment and reagents for ultrafast genetic testing. These shares were purchased with the purpose of involvement in a socially important project.

As at 30 June 2016, JSC "Eidos-Dnaform" was included in the Interim Financial Statements as a fully consolidated subsidiary.

The provisional fair value of identifiable assets and liabilities at the date of acquisition is presented in the following table.

	As at the date of acquisition
	<i>(in thousands of Roubles)</i>
	<i>(unaudited)</i>
Cash and cash equivalents	1,386
Other assets	65,359
	66,745
Loans received	(66,860)
Other liabilities	(47)
	(66,907)
Total net identifiable assets.....	(162)
Consideration transferred on acquisition.....	100

On the basis of the decision of the Board of Directors of the CBR, TFB has been selected to serve as the investor during the financial recovery (sanation) of Sovetsky. On 16 March 2016, the Group acquired 99.9 per cent. of voting shares in Sovetsky. The shares were purchased in accordance with the bank's rehabilitation plan to expand its presence. On 24 April 2016, the Deposit Insurance Agency transferred the control over Sovetsky's activity to the Group. As at 30 June 2016, Sovetsky was fully consolidated in the Group's IFRS Financial Statements.

As at 30 June 2016, JSC "Bank "Sovetsky" was included in the Interim Financial Statements as a fully consolidated subsidiary.

The carrying amounts of assets and liabilities of Sovetsky as at the acquisition date were as follows:

	As at the date of acquisition
	<i>(in millions of Roubles)</i>
	<i>(unaudited)</i>
Assets	
Cash and cash equivalents	1,929
Mandatory reserves with the CBR	858
Due from banks	52
Financial instruments at fair value through profit or loss	4
Loans to customers.....	7,179
Investment property.....	2,712
Property and equipment	1,004
Other assets	130
Total assets.....	13,867
Liabilities	
Due to banks	(8)
Customer accounts	(26,691)
Amounts received from DIA	(3,051)
Other liabilities	(69)
Total liabilities.....	(29,819)
Total net identifiable assets.....	(15,952)
Fair value of the previously held equity interests	-
Derecognition of previous relations	14,106
Goodwill arising on acquisition.....	1,846
Consideration transferred on acquisition	-

Russia's Economic Condition

Due to the substantial concentration of the assets of the Group, as well as the location of the Group's customers in Russia, the Group is substantially affected by Russian macroeconomic conditions. Whilst there have been improvements in economic trends in Russia as the global financial crisis diminished during 2010, the Russian Federation continues to be an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not widely convertible outside of the Russian Federation and relatively high inflation.

The following table sets forth certain Russian economic indicators as at and for the years ended 31 December 2015 and 2014.

As of and for the year ended 31 December	
2015	2014

Nominal GDP (in RUB billion).....	80,413	77,893
Real GDP growth/(decline) (in %)	(3.7)	0.7
Inflation ⁽¹⁾	12.9	11.4

Sources: CBR, Russian Federal State Statistics Service

Russian economy is to a significant extent driven by exports of key commodities such as oil, gas, iron ore and other raw materials which makes it particularly vulnerable to global market downturns or slowdowns. Dramatic decreases in the prices of these commodities in the world market can lead to significant reductions in Russian Government's revenues and the revenues of private Russian companies operating in these sectors which, in turn can have a material negative impact on the overall Russian economy.

At the onset of the global financial and economic crisis in 2008 and early 2009, commodity prices plunged, with the price of crude oil, for example, decreasing by more than 70 per cent. between July 2008 and early 2009. Although the commodity prices have somewhat recovered in the second half of 2009 through 2014, the price of oil started to decline rapidly in mid-2014.

The conditions and outlook for the Russian economy deteriorated significantly during 2014 and 2015, further exacerbated by the geopolitical tensions around Ukraine and the resulting sanctions against the Russian Federation imposed by the United States, European Union and certain other countries. See "*Risk Factors – Risks Relating to TFB's Business and Industry – The current crisis in Ukraine and the reaction of the U.S., the EU and certain other countries to Russia's actions in connection with Crimea creates significant political and economic uncertainty which could adversely impact the Group's financial condition*".

According to Russian Federal State Statistics Service, Russian GDP growth in real terms fell by 0.7 per cent. in 2014 and, in 2015, GDP contracted by 3.7 per cent.

The rate of inflation grew from 11.4 per cent. in 2014 to 12.9 per cent. in 2015. In 2014 and 2015, the Rouble depreciated substantially against all major currencies, including the U.S. dollar (from RUB 56.26 per U.S.\$ 1.00 as of 31 December 2014 to RUB 72.89 per U.S.\$ 1.00 as of 31 December 2015 (or by 29.6 per cent.)). While in the first half of 2016, the Rouble appreciated by 11.8 per cent. to RUB 64.26 per U.S.\$ 1.00 as of 30 June 2016, exchange rates remain volatile and generally follow oil and gas price fluctuations.

Any deterioration of the Russian economy affects the Russian banking sector as was illustrated by the reduction of profits, accumulation of losses and growth in the percentage of non-performing loans (i.e., loans overdue by more than 90 days) on balance sheets of Russian banks.

The crisis in Ukraine also reduced, to a certain extent, the ability of Russian companies to raise new debt and/or refinance existing debt in international capital markets. While the Group's business focuses on the Russian market, the Group has historically tapped wholesale capital and loan markets for funding, including term loans and deposits from other banks, issuance of debt securities, and loans and other borrowings. Investors' lack of confidence in the banking industry globally has caused volatility in wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including the Group.

From time to time, the Group has been unable to access international capital markets on commercially justifiable terms and relied primarily on customer deposits, domestic capital markets and direct or indirect state funding to finance its operations.

Allowance for Impairment

Allowance for impairment is a major component of the Group's income statement. As such, changes in the allowance for impairment have affected the Group's results of operations in the past and are likely to continue to affect the Group's results of operations in the future.

During the periods under review, the Group's position with respect to allowance for impairment worsened. For the year ended 31 December 2015, the Group's allowance for impairment increased by 99.1 per cent. to RUB 6,793 million from RUB 3,412 million for the year ended 31 December 2014. This increase is primarily attributable to a RUB 3,000 million, or 85.0 per cent., increase in allowance for impairment of loans to customers which was in turn due to the overall growth of the Group's loan portfolio and general deterioration of the economic situation in Russia.

As at 30 June 2016, the percentage of the Group's allowance for loan impairment to the Group's gross loans to customers decreased to 11.6 per cent. from 13.1 per cent. and 13.3 per cent. as at 31 December 2015 and 2014, respectively.

The Group is continuing to reassess the quality of its loan portfolio and its risk management processes and believes that the volume of its non-performing loans (i.e., loans overdue by more than 90 days), allowance for loan impairment and loan impairment losses may increase in the near-term in line with the changes in the economic conditions in Russia and the expected growth of the Group's loan portfolio but would then decrease following the beginning of growth of the Russian economy. See "*Risk Factors - Risks Relating to TFB's Business and Industry – The quality of the TFB's loan portfolio may deteriorate as a result of adverse economic conditions*".

Interest Rate Environment

The interest rate environment in the Russian Federation reflects factors such as expectations regarding inflation, changes in interest rates set by the CBR, competition among banks and general macroeconomic conditions and access to funding sources. For example, throughout 2014, in order to counter the market instability and increased volatility of the Rouble, the CBR continuously increased the key one-week interest rate from 5.5 per cent. to 17 per cent. Following stabilisation of the markets, the key rate was reduced to 10 per cent.

The other key factors determining the net interest income of the Group are increased inflation and competition for customers (particularly during periods when banks operating in the Russian Federation may have reduced access to wholesale funding markets), which generally result in the increase of interest rates payable on new customer deposits and the resulting reduction in net interest margin.

Average lending rates on the Russian interbank market may also fluctuate significantly. For example, the average Rouble interbank lending rate (with maturity of less than one year) was 10 per cent. in 2014, 15 per cent. in 2015 and 11 per cent. in the first half of 2016. Higher average interest rates put pressure on the Group's net interest margins. However, the Group's

net interest margin⁵ has increased to 3.47 per cent. for the six months ended 30 June 2016, compared to 0.20 per cent. for the six months ended 30 June 2015, and stood at 0.92 per cent. and 2.92 per cent. for the years ended 31 December 2015 and 2014, respectively.

Fluctuations in the Value of Securities

The value of the Group's securities portfolio has fluctuated in the past and is likely to continue to fluctuate in the future, which may have a direct impact on the Group's results of operations and the structure of the consolidated statement of financial position. As at 30 June 2016, the Group had RUB 31,331 million, or 15.7 per cent. of its total assets, invested in financial instruments at fair value through profit or loss, compared to RUB 28,333 million, or 15.6 per cent. of its total assets, as at 31 December 2015 and RUB 32,314 million, or 20.1 per cent. of its total assets, as at 31 December 2014.

Results of Operations for the Six Months Ended 30 June 2016 and 2015

Without regard to comprehensive income, the Group generated loss of RUB 3,270 million for the six months ended 30 June 2016, compared to a loss of RUB 2,583 million for the six months ended 30 June 2015. The financial result from the acquisition of Sovetsky was the principal driver in the increase of the Group's loss in the six months ended 30 June 2016.

The following table sets forth selected consolidated statement of comprehensive income data for the Group for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	<i>(in millions of Roubles)</i>	
	<i>(unaudited)</i>	
Interest income	11,692	9,253
Interest expense	(8,710)	(9,108)
Net interest income.....	2,982	145
Fee and commission income.....	827	756
Fee and commission expense.....	(231)	(158)
Net fee and commission income	596	598
Net (losses)/gains from financial instruments at fair value through profit or loss	(398)	759
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(339)	(169)
Net (losses) from investments available for sale	(241)	(20)
Net gains/(losses) from investment property	2	(20)
Other operating income.....	99	29
Allowance for impairment	(2,411)	(1,957)
Impairment of goodwill	(1,846)	-
Administrative and other operating expenses.....	(2,010)	(1,637)

⁵ This measure is an APM. Net interest margin is calculated as the net interest income before provision for impairment losses of interest bearing assets divided by average balance of such interest bearing assets. The average balances for such interest bearing assets are calculated as the average of the beginning and end of period balances, as appropriate.

	Six months ended 30 June	
	2016	2015
	<i>(in millions of Roubles)</i>	
	<i>(unaudited)</i>	
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	164	(167)
Loss before tax	(3,401)	(2,440)
Income tax (expense) benefit	131	(143)
Loss for the period	(3,270)	(2,583)
Attributable to:		
- Equity holders of TFB	(3,198)	(2,590)
- Non-controlling interests	(72)	7
Other comprehensive income/(loss) attributable to equity holders of TFB		
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
Investments available for sale, including:		
- Net change in fair value	21	(7)
- Net change in fair value transferred to profit or loss	324	43
Income tax effect	(69)	(7)
Other comprehensive income/(loss) attributable to equity holders of TFB, net of tax ..	276	29
Total comprehensive loss	(2,993)	(2,554)
Attributable to:		
- Equity holders of the parent	(2,921)	(2,561)
- Non-controlling interest	(72)	7

Net Interest Income

Net interest income is calculated as the difference between interest income and interest expense. The Group's net interest income increased by RUB 2,837 million, or by 1,956.6 per cent., to RUB 2,982 million for the six months ended 30 June 2016 from RUB 145 million for the six months ended 30 June 2015. This increase resulted primarily from increasing profitability of lending operations.

Interest Income

The Group's interest income consists of interest earned on (a) loans to customers, (b) debt financial instruments at fair value through profit or loss, (c) debt instruments available for sale, (d) amounts due from banks, and (e) receivables under sale and repurchase agreement.

For the six months ended 30 June 2016, the Group's total interest income increased by RUB 2,439 million, or 26.4 per cent., to RUB 11,692 million from RUB 9,253 million for the six months ended 30 June 2015. The increase in interest income in the six months ended 30 June 2016 was primarily due to the growth of the Group's return on assets.

The Group's interest income on loans to customers (excluding loans under reverse repurchase transactions) for the six months ended 30 June 2016 increased by RUB 2,628 million, or 35.5

per cent., to RUB 10,031 million from RUB 7,403 million for the six months ended 30 June 2015, which reflected the overall growth of the Group's loan portfolio and profitability.

Interest Expense

The Group's interest expense consists of interest expense on (a) customer accounts, (b) term deposits of other banks and securities purchase and resale transactions, (c) debt securities issued, (d) subordinated borrowings, and (e) Eurobonds issued.

For the six months ended 30 June 2016, the Group's total interest expense decreased by RUB 398 million, or 4.4 per cent., to RUB 8,710 million from RUB 9,108 million for the six months ended 30 June 2015. This reduction was principally due to the decrease of the cost of funding following the reduction of the CBR's key interest rate from 17 per cent. to 10.5 per cent. in the six months ended 30 June 2016 and the resulting decrease of the Group's interest expense on customer accounts.

For the six months ended 30 June 2016, the Group's interest expense on customer accounts remained relatively stable and amounted to RUB 5,329 million as compared to RUB 5,523 million for the six months ended 30 June 2015. The reduction in interest expense on customer accounts accounted for 48.6 per cent. of the total decrease in interest expense.

Net Interest Margin

Net interest margin is calculated as net interest income before provision for impairment losses on interest bearing assets divided by the average balance of such interest bearing assets.⁶ The Group's net interest margin for the six months ended 30 June 2016 was 3.47 per cent., compared to 0.20 per cent. for the six months ended 30 June 2015.

Allowance for Impairment

The Group establishes allowance for impairment when there is objective evidence that a financial asset or group of financial assets has become impaired.

The Group's allowance for impairment increased by RUB 454 million, or by 23.2 per cent., to RUB 2,411 million for the six months ended 30 June 2016 from RUB 1,957 million for the six months ended 30 June 2015. This increase was primarily due to the overall growth of the Group's loan portfolio and the deterioration of the economic situation in the Russian Federation.

Net Non-Interest Income and Expense

The Group principally generates non-interest income and expense from fee and commission income, financial instruments at fair value through profit or loss, foreign currency and foreign exchange derivatives as well as investments available for sale.

⁶The average balances of such interest bearing assets are calculated as the average of the beginning and end of period balances, as appropriate.

Net Fee and Commission Income

For the six months ended 30 June 2016, the Group's net fee and commission income remained relatively stable and amounted to RUB 596 million as compared to RUB 598 million for the six months ended 30 June 2015.

Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation

For the six months ended 30 June 2016, the Group's total losses less gains from foreign currencies and foreign exchanges derivatives, and from currency translation increased by RUB 170 million, or by 100.6 per cent., to RUB 339 million from RUB 169 million for the six months ended 30 June 2015. This increase was predominantly due to the Group's operation in derivative financial instruments.

Administrative and Other Operating Expenses

For the six months ended 30 June 2016, the Group's total operating expenses increased by RUB 373 million, or by 22.8 per cent., to RUB 2,010 million from RUB 1,637 million for the six months ended 30 June 2015. This increase was mainly in line with business development of the Group during the first half of 2016. The increase of staff costs accounted for 39 per cent. of the increase in total operating expenses between the two periods.

For the six months ended 30 June 2016, the Group's staff costs increased by RUB 146.7 million, or by 17.6 per cent., to RUB 981.9 million from RUB 835.2 million for the six months ended 30 June 2015. This increase was mainly attributable to the acquisition of Sovetsky.

Income Tax Expense

The income tax expense comprises current tax and deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using tax rates in force at the balance sheet date. Taxes other than on income are recorded as administrative and other operating expenses.

For the six months ended 30 June 2016, the Group's generated an income tax expense benefit of RUB 131 million compared an income tax expense of RUB 143 million for the six months ended 30 June 2015. This change of RUB 274 million, or 191.6 per cent., was driven by change in deferred tax of RUB 277 million, which resulted from the reduction in the value of net assets of closed-end real estate mutual investment fund Technologies of Investments and the increase in the reserve for revaluation of securities available for sale.

Results of Operations for the Years Ended 31 December 2015 and 2014

General

The table below sets out the principal components of the Group's consolidated statement of comprehensive income for the years ended 31 December 2015 and 2014.

Year ended 31 December	
2015	2014
(in millions of	

	<i>Roubles</i>	
Interest income	19,885	14,226
Interest expense	(18,456)	(10,537)
Net interest income	1,429	3,689
Fees and commission income	1,777	1,914
Fees and commission expense	(390)	(322)
Net fee and commission income	1,387	1,592
Net (losses) gains from financial instruments at fair value through profit or loss	(109)	50
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(306)	(513)
Net (losses)/gains from investments available-for-sale	674	(19)
Net (losses)/gains from investment property	(9)	415
Other operating income.....	86	96
Allowance for impairment	(6,793)	(3,412)
Expenses on assignment of claims	—	(367)
Administrative and other operating expenses.....	(3,608)	(3,822)
Expenses from the placement of financial instruments at below-market interest rates	(26)	(873)
Financial result from the sale of subsidiaries	—	1,563
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds.....	(94)	138
Net gains from the acquisition/disposal of subsidiaries	1,315	—
Profit/(loss) before tax	(6,054)	(1,462)
Income tax expense	(371)	5
Profit/(loss) for the year	(6,425)	(1,456)
Attributable to:		
- Equity holders	(6,428)	(1,455)
- Non-controlling interests	2	(2)
Other comprehensive income/(loss) attributable to equity holders		
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
<i>Investments available for sale, including:</i>		
- Net change in fair value.....	5	(134)
- Net change in fair value transferred to profit or loss	1	(192)
Income tax effect.....	(1)	65
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	5	(261)
Other comprehensive income/(loss) attributable to equity holders, net of tax	5	(261)
Total comprehensive (loss)/profit	(6,421)	(1,718)
Attributable to:		
- Equity holders	(6,423)	(1,716)
- Non controlling interests	2	(2)

Profit/Loss

In the year ended 31 December 2015, the Group's losses increased by RUB 4,969 million to RUB 6,425 million from RUB 1,456 million in the year ended 31 December 2014. The increase in the amount of losses was primarily due to the rise in interest expense with respect to customer accounts and term deposits of other banks and securities purchase and resale transactions and an increase in allowance for impairment which was, in turn, caused by the

increased competition for retail and corporate deposits and the general worsening of economic situation in the Russian Federation.

Net Interest Income and Net Interest Margin

Net Interest Income

The Group's net interest income before allowance for impairment amounted to RUB 1,429 million and RUB 3,689 million in the years ended 31 December 2015 and 2014, respectively.

Interest Income

The Group's interest income consists of interest earned on (a) loans to customers, (b) debt financial instruments at fair value through profit or loss, (c) debt instruments available for sale, (d) amounts due from banks, and (e) receivables under sale and repurchase agreement.

The table below sets out the principal components of the Group's interest income for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	2014
	<i>(in millions of Roubles)</i>	
Interest income		
Debt financial instruments at fair value through profit or loss	2,142	1,026
Loans to customers (not impaired)	13,032	9,931
Loans to customers (impaired)	3,024	2,515
Debt investments available-for-sale	976	429
Due from banks	327	86
Receivables under sale and repurchase agreements	183	66
Other	200	173
Total interest income	19,885	14,226

In the year ended 31 December 2015, the Group's interest income grew by RUB 5,659 million, or 39.8 per cent. to RUB 19,885 million from RUB 14,226 million in the year ended 31 December 2014. This increase was primarily due to the increase in interest bearing assets, particularly loans to customers.

Interest Expense

The Group's interest expense consists of interest expense on (a) customer accounts, (b) term deposits of other banks and securities purchase and resale transactions, (c) debt securities issued, (d) subordinated borrowings, and (e) Eurobonds issued.

The table below sets out the principal components of the Group's interest expense for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	2014
	<i>(in millions of Roubles)</i>	
Interest expense		
Customer accounts	10,988	5,834

Term deposits of other banks and securities purchase and resale transactions	3,325	1,507
Debt securities issued	2,860	2,586
Subordinated borrowings	838	390
Eurobonds issued	430	204
Other	15	16
Total interest expense	18,456	10,537

In the year ended 31 December 2015, the Group's total interest expense increased by RUB 7,919 million, or 75.2 per cent., to RUB 18,456 million from RUB 10,537 million in the year ended 31 December 2014. This increase was primarily due to the growth of the Group's interest bearing liabilities (in particular, customer accounts, amounts due to banks and the CBR) and the increase in the Group's cost of funding in 2015.

The Group's interest expense on customer accounts increased by RUB 5,154 million (or 88.3 per cent.) to RUB 10,988 million from RUB 5,834 million in the years ended 31 December 2015 and 2014, respectively.

These increases were primarily driven by the growth in Group's customer accounts and increases in interest rates on customer deposits which, in turn, were principally due to the increase of the CBR's key interest rate to 17 per cent. in December 2014 and resulting increase in the competition for funding by Russian banks.

Net Interest Margin

The Group's net interest margin, which is calculated as the net interest income divided by the total average assets⁷, for the year ended 31 December 2015 was 0.92 per cent., compared to 2.92 per cent. for the year ended 31 December 2014. The reduction in the Group's net interest margin was influenced by a number of factors, including higher inflation in 2014 and 2015 and increased competition for customer deposits.

Net Non-Interest Income and Expense

The Group principally generates non-interest income and expense from fee and commission income, financial instruments at fair value through profit or loss, foreign currency and foreign exchange derivatives as well as investments available for sale.

The table below sets out the principal components of the Group's non-interest income and expense for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	2014
	<i>(in millions of Roubles)</i>	
Net fee and commission income	1,387	1,592
Net (losses)/gains from financial instruments at fair value through profit or loss	(109)	50
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign	(306)	(513)

⁷ This measure is an APM. The average assets are calculated as the average of the beginning and end of period balances, as appropriate.

currency translation		
Net (losses)/gains from investments available-for-sale	674	(19)
Net (losses)/gains from investment property	(9)	415
Other operating income	86	96
Allowance for impairment	(6,793)	(3,412)
Expenses on assignment of claims	-	(367)
Administrative and other operating expenses	(3,608)	(3,822)
Expenses from the placement of financial instruments at below-market interest rates	(26)	(873)
Financial result from the sale of subsidiaries	-	1,563
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	(94)	138
Net gains from the acquisition/disposal of subsidiaries	1,315	-
Income tax expense	(371)	5
Net financial result from non-interest income	(7,854)	(5,147)

For the year ended 31 December 2015, the Group's net financial result from non-interest income represented a loss of RUB 7,854 million as compared to a loss of RUB 5,147 million as at 31 December 2014. The RUB 2,707 million increase in the loss from non-interest income for the year ended 31 December 2015 was predominantly caused by a RUB 3,381 million increase in the Group's allowance for impairment.

Some of the principal components of the Group's non-interest income and expense are further discussed below.

Fee and Commission Income and Expense

The table below sets out the principal components of the Group's fee and commission income and expense for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	2014
	(in millions of Roubles)	
Fee and commission income		
Settlement operations	881	820
Transactions with plastic cards	463	521
Cash transactions	182	239
Guarantees and letters of credit issued	172	264
Transactions with securities	40	39
Currency operations	28	19
Fiduciary activities	10	11
Other	1	-
Total fee and commission income	1,777	1,914
Fee and commission expense		
Transactions with plastic cards	139	103
Transactions with securities	96	52
Settlement operations	53	51
Cash collection	32	42
Fiduciary transactions	31	39
Guarantees and letters of credit received	20	17

Cash transactions	2	6
Other	17	12
Total fee and commission expense	390	322
Net fee and commission income	1,387	1,592

For the year ended 31 December 2015, the Group's fee and commission income decreased by 7.2 per cent. to RUB 1,777 million from RUB 1,914 million which reflected the reduced level of economic activity in Russia in 2015.

Over the review period, the Group's net fee and commission income remained relatively stable.

Net Losses/Gains from Financial Instruments at Fair Value Through Profit or Loss

For the year ended 31 December 2015, the Group's losses less gains from financial instruments at fair value through profit or loss amounted to RUB 109 million as compared to RUB 50 million gains less losses from financial instruments at fair value through profit or loss for the year ended 31 December 2014 which was primarily due to the deterioration of economic situation and increased volatility in financial markets.

Losses Less Gains from Foreign Currencies and Foreign Exchange Derivatives, and from Foreign Currency Translation

For the year ended 31 December 2015, the Group's net losses less gains from foreign currencies and foreign exchange derivatives, and foreign currency translation amounted to RUB 306 million as compared to net losses less gains of RUB 513 million as at 31 December 2014. These results reflect the increased volatility of FX markets in Russia.

Net Losses/Gains from Disposal of Investments Available for Sale

For the year ended 31 December 2015, the Group's net gains from disposal of investments available for sale amounted to RUB 674 million as compared to net losses of RUB 19 million for the year ended 31 December 2014 which is largely due to income received in 2015 from revaluation of shares of a Russian company available for sale as a result of a transaction with a non-related company.

Net Losses/Gains from Investment Property

The Group holds or held units in closed-end real estate mutual investment funds "TFB-Aktiv", "TFB-Investitziyonny", "Nash Novy Dom" and "Priozernyi" whose assets are comprised of commercial and residential real estate and land plots. These assets are recognised by the Group as investment property held for capital appreciation. The value of the investment property is determined by the Group's management based on the assessment of third party independent appraisers.

For the year ended 31 December 2015, the Group's net losses from investment property amounted to RUB 9 million as compared to a gain of RUB 415 million for the year ended 31 December 2014. The 2015 loss from investment property is due to losses on disposal of units in closed-end real estate mutual investment fund "Nash Novy Dom" which were alleviated by gains from the revaluation of property whereby the decrease of gains from

investment property in 2014 was largely due to the one-off nature of the sale of interest in investment property.

Allowance for Impairment

The Group establishes allowance for impairment when there is objective evidence that a financial asset or group of financial assets has become impaired.

The following table sets forth allowance for impairment of loans to customers and amounts due from banks for the Group for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	2014
	<i>(in millions of Roubles)</i>	
Loans to customers	(6,530)	(3,530)
Other assets	(17)	118
Due from banks	(246)	-
Investments available for sale	-	-
Total allowance for impairment losses on interest bearing assets	(6,793)	(3,412)
Cost of risk ratio ⁽¹⁾	5.2%	3.4%

⁽¹⁾ This measure is an APM and represents the provision on impaired loans to customers divided by the average balance of gross loans to customers in the same year. The average balances for interest-earning assets are calculated as the average of the beginning and end of period balances, as appropriate.

In the year ended 31 December 2015, the Group's allowance for impairment of loans to customers and amounts due from banks increased by RUB 3,246 million, or 92 per cent., to RUB 6,776 million from RUB 3,530 million in the year ended 31 December 2014. This increase was mainly due to the increase in allowance for impairment of loans to customers and allowance for impairment of amounts due from banks as well as the general worsening of the economic situation in the Russian Federation.

Administrative and Other Operating Expenses

The table below sets out the principal components of the Group's administrative and operating expenses for the years ended 31 December 2015 and 2014. Staff costs were the largest component of administrative and other operating expenses in this period, accounting for 49.8 per cent. and 50.1 per cent. of such expenses in 2015 and 2014, respectively.

	Year ended 31 December	
	2015	2014
	<i>(in millions of Roubles)</i>	
Staff costs	1,796	1,916
Rent	345	402
Deposit insurance	273	219
Depreciation of property and equipment	207	178
Telecommunications services and stationery	172	193
Repairs and maintenance	164	178
Taxes other than income tax	138	172
Software maintenance expenses	125	134

Software licences	120	101
Professional services	85	92
Advertising and marketing services	45	75
Charity	45	34
Security	28	35
Other	66	93
Total administrative and other operating expenses	3,608	3,822

For the year ended 31 December 2015, the Group's administrative and other operating expenses decreased by 5.6 per cent. to RUB 3,608 million from RUB 3,822 million for the year ended 31 December 2014. This decrease was primarily due to the overall reduction in staff costs.

Staff costs

For the year ended 31 December 2015, the Group's staff costs decreased by 6.3 per cent. to RUB 1,796 million from RUB 1,916 million for the year ended 31 December 2014, which primarily resulted from the reduction of the number of employees of the Group following the optimisation of its regional network.

Income Tax Expense

The Group's principal tax liability is corporate income tax. The Group pays income taxes in accordance with the laws of the Russian Federation. The statutory income tax rate for the Group was 20 per cent. in the years ended 31 December 2015 and 2014.

Taxes other than on income are recorded as administrative and other operating expenses.

For the year ended 31 December 2015, the Group's income tax expense amounted to RUB 371 million representing a 7,100 per cent. increase from RUB 5.3 million income tax benefit for the year ended 31 December 2014 which was due to the Group generating loss in 2015.

Consolidated Financial Position as at 30 June 2016 and 31 December 2015 and 2014

Total Assets⁸

As at 30 June 2016, the Group had total assets of RUB 199,685.9 million, compared to RUB 181,502.3 million as at 31 December 2015. The increase in total assets by RUB 18,183.6 million, or 10.0 per cent., primarily reflected (a) an increase of RUB 8,133.6 million, or 6.7 per cent., in the Group's loan portfolio; (b) an increase of RUB 4,372.1 million or 137.8 per cent., in other assets; and (c) an increase of RUB 2,705.3 million, or 230.8 per cent., in investment property.

The Group's total assets increased by 13.1 per cent. to RUB 181,502 million as at 31 December 2015 from RUB 160,468 million as at 31 December 2014. This increase in total assets is primarily due to the RUB 24,558 million, or 25.4 per cent. increase in loans to customers.

⁸ See "Risk Factors — Risks Relating to TFB's Business and Industry" and " — Significant Accounting Policies".

Loans to Customers

The table below sets out information on the Group's loans to customers by type of borrower as at the dates set forth below.

	As at 31 December		As at 30 June
	2015	2014	2016
	(in millions of Roubles)		(unaudited)
Loans to corporate entities			
Corporate loans	102,288	75,769	109,394
Loans to small and medium enterprises (SME)	8,307	8,423	8,416
Purchase and resale agreements ("reverse repo")	4,115	1,604	200
Loans to individuals			
Consumer loans	15,580	17,173	13,845
Mortgage loans	7,062	5,980	7,977
Car loans	2,225	2,673	6,519
Total gross loans to customers	139,577	111,622	146,351
Allowance for loan impairment	(18,295)	(14,898)	(16,936)
Total net loans to customers	121,282	96,724	129,415

During the six months ended 30 June 2016, the Group's net loans to customers increased by RUB 8,133 million, or 6.7 per cent., to RUB 129,415 million as at 30 June 2016 from RUB 121,282 million as at 31 December 2015.

As at 31 December 2015, the Group's net loans to customers increased by 25.4 per cent. to RUB 121,282 million from RUB 96,724 million as at 31 December 2014. This increase in the Group's loan portfolio follows TFB's strategy to increase loan origination.

The table below sets out the Group's gross loans to customers by sector as at the dates indicated.

	As at 31 December				As at 30 June	
	2015		2014		2016	
	(in millions of Roubles, except percentages)				(unaudited)	
Trade	43,099	31%	32,024	29%	41,196	29%
Finance	29,194	21%	19,197	17%	28,641	20%
Individuals	24,867	18%	25,826	23%	28,341	19%
Real estate	13,478	10%	12,435	11%	14,019	10%
Construction and manufacturing	9,400	7%	4,061	4%	11,576	8%
Food industry	6,596	5%	4,216	4%	8,478	6%
Agriculture	4,933	3%	5,800	5%	4,549	3%
Light industry.....	2,270	1%	1,617	1%	2,690	2%
Sports.....	2,107	1%	2,107	2%	2,106	1%
Transport	731	1%	853	1%	609	-
Hospitality and catering	502	-	604	1%	359	-
Leasing	283	-	261	-	252	-
Other.....	2,117	2%	2,621	2%	3,535	2%
Total gross loans to customers	139,577	100.0%	111,622	100.0%	146,351	100.0%

As at 30 June 2016, the Group had 80 borrowers with aggregated loan amounts of more than RUB 500 million as compared to 74 borrowers as at 31 December 2015 and 50 borrowers as at 31 December 2014.

As at 30 June 2016, the aggregate amount of these loans was RUB 95,348 million, or 65 per cent. of the gross loan portfolio, as compared to RUB 89,541 million, or 64 per cent. of the gross loan portfolio as at 31 December 2015 and RUB 63,243 million, or 57 per cent. of the gross loan portfolio as at 31 December 2014.

While the Group does not disclose the relevant metrics in its financial statements for the six months ended 30 June 2016, as at 31 December 2015, loans to customers of RUB 85,931 million, or 70.9 per cent. of loans to customers, were attributable to customers located in the Republic of Tatarstan as compared to RUB 70,666 million, or 73.1 per cent. of loans to customers, as at 31 December 2014.

Financial Instruments at Fair Value Through Profit or Loss

The table below sets out information relating to the Group's financial instruments at fair value through profit or loss as at the dates indicated.

	As at 31 December		As at 30
	2015	2014	June
	<i>(in millions of</i>		<i>(unaudited)</i>
	<i>Roubles)</i>		
Financial instruments held for trading			
Corporate Eurobonds	5,748	5,891	5,030
Corporate bonds	4,770	8,787	8,066
Russian Government Federal Bonds (OFZ)	23	1,038	89
Total financial investments held for trading	10,541	15,716	13,185
Corporate shares	3	4	-
Total equity securities	3	4	-
Total financial instruments held for trading and owned by the Group	10,544	15,720	13,185
Pledged as collateral under sale and repurchase agreements			
Corporate bonds	8,034	7,932	8,592
Russian Government Federal Bonds (OFZ)	585	-	595
Municipal bonds	-	-	-
Total financial instruments held for trading pledged as collateral under sale and repurchase agreements	8,618	7,932	9,187
Total financial instruments held for trading	19,162	23,652	22,372
Financial instruments designated as at fair value through profit or loss	9,171	8,662	8,959
Total financial instruments at fair value through profit or loss	28,333	32,314	31,331

Investment Property

The table below sets out information relating to the Group's investment property as at the dates indicated.

	Land	Real Estate	Total
	(in millions of Roubles)		
Fair value at 31 December 2014	603	890	1,493
Acquisitions	18	1	20
Transfers from other assets	-	13	13
Revaluations	17	32	50
Disposals	(305)	(98)	(403)
Fair value at 31 December 2015	333	839	1,172
Acquisitions	-	-	-
Revaluations	18	(16)	2
Disposals	(1)	-	(1)
Acquisition of business combination	2,712	-	2,712
Reclassification.....	-	(8)	(8)
Fair value at 30 June 2016 (unaudited)	3,062	815	3,877

Total Liabilities⁹

As at 30 June 2016, the Group's total liabilities amounted to RUB 195,045 million, compared to RUB 175,418 million as at 31 December 2015. The increase in total liabilities by RUB 19,627 million, or 12.2 per cent., primarily reflected (a) an increase of RUB 24,334 million, or 21.7 per cent., in customer accounts; and (b) an increase of RUB 3,109 million in amounts due to the Deposit Insurance Agency in connection with the financial rehabilitation of Sovetsky.

The Group's total liabilities increased by 16.8 per cent. to RUB 175,418 million as at 31 December 2015 from RUB 150,208 million as at 31 December 2014. This increase in total liabilities is primarily due to (a) a RUB 21,816 million, or 24.2 per cent., growth in customer accounts; and (b) a RUB 4,345 million, or 36.4 per cent., growth amounts due to banks; and (c) a RUB 3,709 million, or 56.2 per cent. increase in subordinated borrowings and Eurobonds which was partially offset by a RUB 4,385 million, or 21.5 per cent. reduction in Rouble-denominated bonds and promissory notes issued by the Group.

Liquidity

The Group's liquidity needs have arisen primarily from making loans to customers. The Group's liquidity needs have been funded largely through (a) customer accounts; (b) issue of debt instruments (including promissory notes, Eurobonds and Rouble-denominated domestic bonds); (c) interbank borrowings, including borrowings from the CBR; and (d) subordinated borrowings and Eurobonds.

Funding

The principal sources of funding for the Group are (a) customer accounts (current accounts and term deposits); (b) debt securities in issue (which include proceeds from the issuance of Rouble-denominated bonds, as well as U.S. Dollar and Rouble-denominated promissory notes); (c) Eurobonds issued (which include proceeds from the issuance of U.S. dollar-

⁹ See "Risk Factors — Risks Relating to TFB's Business and Industry" and " — Significant Accounting Policies".

denominated Eurobonds); (d) subordinated borrowings; and (e) due to banks (which include term deposits of the CBR and other banks).

The table below sets out the Group's sources of funding as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2014	2016
	(in millions of Roubles)		(unaudited)
Due to the CBR	16,265	13,005	14,572
Sale and repurchase agreements	10,464	7,611	9,782
Term deposits of the CBR	5,801	5,394	4,791
Due to banks	16,284	11,939	11,065
Term deposits of banks	14,734	11,754	10,913
Sale and repurchase agreements with other banks	1,378	65	-
Loro accounts and overnight deposits of banks	172	119	152
Total due to banks	32,549	24,943	25,637
Customer accounts			
Individuals	76,821	59,735	104,171
Corporate entities	35,155	30,425	32,139
Total customer accounts	111,976	90,160	136,310
Debt securities in issue			
Russian Rouble-denominated bonds	13,172	19,369	13,781
Russian Rouble-denominated promissory notes	1,649	845	380
Mortgage-based bonds	1,036	-	1,508
Foreign currency-denominated promissory notes	159	187	108
Total debt securities in issue	16,015	20,400	15,776
Other			
Eurobonds issued	1,027	3,821	974
Other borrowings	99	1,196	-
Subordinated borrowings and Eurobonds	10,309	6,600	9,866
Total other	11,436	11,617	10,840
Total for all categories of funding	171,975	147,120	188,563

Customer accounts

Customer accounts are one the Group's principal sources of funding and amounted to RUB 136,310 million, or 69.9 per cent. of the Group's total liabilities as at 30 June 2016, as compared to RUB 111,976 million, or 63.8 per cent. and RUB 90,160 million, or 60.0 per cent. of the Group's total liabilities as at 31 December 2015 and 2014, respectively.

The table below sets out the Group's customer accounts by type of depositor and deposit as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2014	2016
	(in millions of Roubles)		(unaudited)
Corporate entities	35,155	30,425	32,139
Term deposits	26,619	23,217	22,972
Current/settlement accounts	6,854	6,663	8,773

Sale and reverse purchase agreements	1,682	546	394
Individuals	76,821	59,735	104,171
Term deposits	72,571	55,844	99,614
Current accounts/demand accounts	4,250	3,891	4,556
Total customer accounts	111,976	90,160	136,310

In the six months ended 30 June 2016, customer accounts increased by RUB 24,334 million, or by 21.7 per cent., to RUB 136,310 million as at 30 June 2016 from RUB 111,976 million as at 31 December 2015 due to the Group's strategy to develop its retail business and corresponding growth in retail deposits.

In the year ended 31 December 2015, customer accounts increased by RUB 21,816 million, or by 24.2 per cent., to RUB 111,976 million from RUB 90,160 million as at 31 December 2014 which primarily resulted from the implementation of the Group's strategy to develop its retail business and corresponding growth of retail deposits.

The table below sets out the Group's customer accounts by sector as at the dates indicated.

	As at 31 December				As at 30 June	
	2015		2014		2016	
	<i>(in millions of Roubles, except percentages)</i>					
Individuals	76,821	70%	59,735	67%	104,170	77%
Construction and manufacturing	18,410	17%	17,662	20%	14,677	11%
Finance	4,978	4%	3,005	3%	3,942	3%
Trade.....	3,147	2%	2,695	3%	4,721	4%
State owned organisations	1,067	1%	153	-	618	-
Food industry.....	1,044	1%	1,134	1%	1,822	1%
Real estate	944	1%	1,302	1%	685	1%
Transport	525	-	533	1%	563	-
Agriculture	262	-	202	-	386	-
Hospitality and catering	130	-	37	-	127	-
Leasing	22	-	36	-	14	-
Legal services	2	-	57	-	2	-
Other.....	4,625	4%	3,609	4%	4,580	3%
Total customer accounts	111,976	100.0%	90,160	100.0%	136,310	100.0%

As at 30 June 2016, the Group had 8 customers with balances exceeding RUB 500 million as compared to 11 customers as of 31 December 2015 and seven customers as of 31 December 2014. The total value of these balances amounted to RUB 15,575.3 million, or 11 per cent. of total customer accounts, as of 30 June 2016, RUB 21,581.5 million, or 19 per cent. of total customer accounts, as of 31 December 2015 and RUB 18,453.3 million, or 20 per cent. of total customer accounts, as of 31 December 2014.

Due to banks and the Central Bank of Russian Federation

The Group views interbank finance as a cost efficient source of funding and amounts due to banks and the CBR represent an important source of the Group's funding.

In the six months ended 30 June 2016, amounts due to banks decreased by RUB 6,912 million, or by 21.2 per cent., to RUB 25,637 million as at 30 June 2016 from RUB 32,549 million as at 31 December 2015 largely due to the reduction of the banks' term deposits.

In the year ended 31 December 2015, amounts due to banks increased by RUB 7,606 million, or by 30.5 per cent., to RUB 32,549 million from RUB 24,943 million as at 31 December 2014 which was primarily due to an increase in the loans under repurchase agreements from the CBR and term deposits of banks.

As at 30 June 2016 and 31 December 2015 and 2014, amounts due to banks include amounts from three, three and four banks, respectively, whose balances individually exceed 10 per cent. of the total due to banks. The aggregate value of balances due to these banks are RUB 10,070.5 million, RUB 12,220.0 million and RUB 10,043.0 million as at 30 June 2016 and 31 December 2015 and 2014, respectively.

As at 30 June 2016 and 31 December 2015 and 2014, amounts due to banks include amounts received from SME Bank for the purposes of providing loans to SMEs in the amount of RUB 2,739 million, or 24.8 per cent. of the total amount due to banks, RUB 3,259 million, or 20 per cent. of the total amount due to banks and RUB 2,275 million or 19 per cent. of the total amount due to banks as at 30 June 2016 and 31 December 2015 and 2014, respectively. These liabilities mature from 30 September 2016 to 29 July 2022 and interest rates vary from 6 per cent. to 11 per cent. per annum. Outstanding balances of loans issued using the funds received from SME Bank amount to RUB 2,497 million, RUB 3,011 million and RUB 2,057 million as at 30 June 2016 and 31 December 2015 and 2014, respectively.

As at 30 June 2016 and 31 December 2015 and 2014 liabilities in the aggregate amount of RUB 9,782 million, RUB 11,842 million and RUB 7,676 million, respectively, under sale and repurchase agreements were collateralised by securities with the fair value of RUB 11,398 million, RUB 13,962 million and RUB 9,407 million, respectively.

As at 30 June 2016 and 31 December 2015 and 2014, amounts due to banks include RUB 6,301 million, RUB 5,648 million and RUB 3,700 million, respectively, received from a related party.

Debt securities in issue

The Group's debt securities in issue included Rouble-denominated exchange-traded bonds placed on domestic market, as well as Rouble and U.S. Dollar-denominated discount, interest-bearing and interest free promissory notes.

As at 30 June, the Group's debt securities decreased by RUB 239 million, or by 1.5 per cent., to RUB 15,776 million as at 30 June 2016 from RUB 16,015 million as at 31 December 2015.

As of 31 December 2015, the Group's debt securities decreased by RUB 4,385 million, or 21.5 per cent., to RUB 16,015 million from RUB 20,400 million as at 31 December 2014 due to the prevailing market conditions in the Russian Federation in 2015 and the Group's ability to attract funding at better rates.

Eurobonds issued

On 28 April 2014, the Group placed U.S.\$ 70 million 11 per cent. Eurobonds due 2017. On 27 October 2015, the Group has repaid U.S.\$ 55 million of these Eurobonds. As at 30 June 2016, the amortised cost of Eurobonds was RUB 975 million as compared to RUB 1,027 million as at 31 December 2015 and RUB 3,821 million as at 31 December 2014.

Subordinated borrowings

The Group also obtains long-term funding through subordinated loans attracted both on international and domestic markets. The following table sets forth the composition of the Group's subordinated debt as of the dates indicated:

	<u>Maturity date (year)</u>	<u>Nominal interest rate</u>	<u>As at 31 December</u>		<u>As at 30 June</u>
			<u>2015</u>	<u>2014</u>	<u>2016</u>
			<i>(in millions of Roubles)</i>		
			<i>(unaudited)</i>		
Subordinated borrowing.....	2019	8.00%	2,100	2,100	2,100
Subordinated borrowing.....	2020	9.25%	1,000	1,000	1,000
Subordinated Eurobonds	-	12.50%	4,542	3,500	3,999
Subordinated borrowing.....	2025	12.00%	2,417	-	2,417
Subordinated borrowing.....	2025	10.50%	250	-	250
Subordinated borrowing.....	2026	10.50%	-	-	100
Total subordinated borrowing and Eurobonds.....			10,309	6,600	9,866

Capital Adequacy

TFB is regulated by the CBR and must meet the CBR's capital adequacy requirements based on its RAS stand-alone financial statements. In addition, TFB monitors their compliance with the capital requirements calculated in accordance with Basel II Accord 2004 under IFRS accounting.

The table below sets out Tier 1, Tier 2 and Tier 3 capital and the Tier 1 and total capital ratios of the Group as at 30 June 2016 and 31 December 2015 and 2014 calculated in accordance with the international framework for capital measurement and capital standards of banking institutions set by the Basel Committee on Banking Regulations and Supervisory Practices.

	As at 31 December		As at 30 June
	2015	2014	2016
<i>(in millions of Roubles)</i>			
<i>(unaudited)</i>			
Tier 1 capital	10,613	10,082	8,352
Tier 2 capital	5,106	5,055	4,464
Tier 3 capital	-	1,454	1,222
Total regulatory capital	15,719	16,591	14,038

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2014</u>	<u>2016</u>
Risk-weighted assets:			
Credit risks	133,672	110,091	153,970
Market risks	15,101	26,547	21,382
Total risk-weighted assets	148,773	136,639	175,352
Tier 1 capital ratio.....	7.1%	7.4%	4.8%
Basel 1 ratio	10.6%	12.1%	8.0%

The CBR requires Russian banks to maintain a capital adequacy ratio of 8.0 per cent. of total risk-weighted assets, as calculated on the basis of the CBR regulations. As at 30 June 2016, TFB's capital adequacy ratio calculated on this basis was 10.3 per cent. as compared to 11.7 per cent. as at 31 December 2015 and 11.6 per cent. as at 31 December 2014.

THE ISSUER

The Issuer was incorporated in Ireland under the name TFB Finance Limited on 15 March 2007, with registered number 436423 as a private company with limited liability under the Companies Acts 1963-2013 (as amended) of Ireland), and was subsequently re-registered as a designated activity company under the Companies Act 2014 (the "**Companies Acts**") on 10 May 2016 where its name changed to TFB Finance Designated Activity Company. The registered office of the Issuer is 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland and the phone number is +353 1 614 6240.

The authorised share capital of the Issuer is EUR 1 made up of 1 ordinary share of par value EUR1 (the "**Share**"). The Issuer has issued 1 Share, which is fully paid and is held on trust by or on behalf of TMF Management (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 20 March 2007, under which the Share Trustee holds the Share on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

TMF Administration Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 23 April 2007 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days of the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least two months, written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland.

Principal Activities

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

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issuances of debt securities and to use the amounts equal to the proceeds of such issuances to advance the loans to TFB.

Since its incorporation, the Issuer has not engaged in any material activities, other than those incidental to its registration as a private company under the Companies Acts and those related to the authorisation and issue of the U.S.\$200,000,000 9.750 per cent. loan participation notes due 2010 (the "**2010 Notes**"), the authorisation and issue of the U.S.\$225,000,000 12 per cent. loan participation notes due 2012 (the "**2012 Notes**"), the authorisation and issue of the 2017 Notes (as defined in "*Risk Factors*"), the authorisation and issue of the U.S.\$60,000,000 12.5 per cent. perpetual loan participation notes (the "**Perpetual Notes**") and those related to the issue of the Notes.

The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The current directors of the Issuer and their business addresses are as follows:

- John Hackett (Director); and
- Keat Cheng Chin (Director).

The business address of the Directors is at: 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland.

The Company Secretary is TMF Administration Services Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in the Share. The directorship of the directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Since 31 December 2015, there has been no material adverse change in the financial position and prospects of the Issuer. Save for the issues of the 2010 Notes and the 2012 Notes (each of which have been redeemed), the 2017 Notes, the Perpetual Notes and the Notes described herein and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

The financial year of the Issuer ends on 31 December in each year. The Issuer's audited financial statements as at and for the years ended 31 December 2015 and 2014 have been prepared in accordance with IFRS and these financial statements have been filed with the Irish Stock Exchange and are incorporated by reference. The Issuer does not prepare interim financial statements.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the

Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer.

The auditors of the Issuer are PricewaterhouseCoopers of 1 Spencer Dock, North Wall Quay, Dublin 1, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practise in Ireland.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Notes.

The U.S.\$ 60,000,000 8.5 per cent. Loan Participation Notes due 2019 (the "**Notes**" which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 15 and forming a single series therewith) of TFB Finance D.A.C. (the "**Issuer**", which expression shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10.3) are constituted by, are subject to, and have the benefit of, a trust deed dated 9 November 2016 (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.\$ 60,000,000 (the "**Loan**") to Public Joint Stock Company "Tatfondbank" (the "**Bank**"). The terms of the Loan are recorded in a loan agreement dated 3 November 2016 between the Issuer and the Bank (the "**Loan Agreement**").

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

The Issuer has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to an agency agreement (the "**Agency Agreement**") dated 9

November 2016 and made between the Bank, the Issuer, The Bank of New York Mellon, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), The Bank of New York Mellon, London Branch, as the account bank (the "**Account Bank**", which expression shall include any successors) and The Bank of New York Mellon (Luxembourg) S.A., as the registrar and the transfer agent (the "**Registrar**" and the "**Transfer Agent**", which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer being, at the date hereof, 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland, the principal office of the Trustee being, at the date hereof, at One Canada Square, London E14 SAL and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. **Status and Limited Recourse**

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the secured, limited recourse obligations of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received (net of tax and any other deductions whatsoever) by, or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed).

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

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

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or any

liability or obligation in respect of the performance and observance by the Bank of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Bank under the Loan Agreement;

- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank under or in respect of the Loan Agreement;
- (d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depends upon performance by the Bank of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Bank;
- (f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank without liability to any person (and, where applicable, certification by third parties) (whether or not addressed to or obtained by the Trustee) as a means of monitoring whether the Bank is complying with its obligations under the Loan Agreement and the Trustee may rely without liability to any person on certificates of the Issuer as a means of monitoring whether the Issuer is complying with its obligations under these Conditions and the Trust Deed and shall not otherwise be responsible for investigating any aspect of the Bank's or the Issuer's performance in relation thereto and the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject to the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such

security and the Trustee has no responsibility for the value, validity or adequacy of such security; and

- (g) neither the Issuer nor the Trustee shall at any time be required to expend or risk their own funds or otherwise incur any financial liability in the performance of their obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until they have received from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or have been (in their sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes except to the extent that there is failure in its subsequent payment to the Noteholders.

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

As provided in the Trust Deed, and notwithstanding any other provision hereof, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to Clause 6 of the Loan Agreement) from the Bank in respect of principal, interest, additional amounts or tax indemnity, as the case may be, pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Bank and no other assets of the Issuer will be available to the Noteholders.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application

of the proceeds in accordance with Clause 7 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

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

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

2. **Form and Denomination**

The Notes are issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a "**Specified Denomination**"), without interest coupons.

3. **Register, Title and Transfers**

3.1 **Register**

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

3.2 **Title**

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

3.3 **Transfers**

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office

of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

3.4 Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with Condition 3.3 above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

3.5 No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3.8 Restrictive Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to or consent to any amendments to or any modification of, or waiver of,

or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys other than issues of notes on a limited recourse basis for the sole purpose of making loans to the Bank (including issues of Notes pursuant to Condition 15), engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes or any other security interests in relation to any other issue of notes, making the Loan to the Bank pursuant to the Loan Agreement or any future loans to the Bank and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (to the extent the same is under the control of the Issuer and otherwise than as contemplated in these Conditions, the Trust Deed and the Loan Agreement), issue any shares (other than those shares in issue on the date hereof or those necessary to convert the Issuer's status to that of a public limited company) or make any distribution to its shareholders, give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

4. **Interest**

On 12 May and 12 November of each year, commencing on 12 May 2017 and ending on 12 November 2019 (each an "**Interest Payment Date**"), provided that, for the avoidance of doubt, no interest payment will be due on 12 November 2016, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement which interest under the Loan Agreement is equal to 8.5 per cent. per annum (as set out in Clause 4 of the Loan Agreement).

If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. **Redemption**

5.1 **Scheduled Redemption**

Unless previously prepaid or repaid pursuant to Clauses 5.2, Clause 5.3, Clause 5.4, Clause 5.5, Clause 5.6 or Clause 11 of the Loan Agreement, the Bank will be required to repay the Loan on the day which is one Business Day (as defined in the Loan Agreement) prior to the Repayment Date (as defined in the Loan Agreement) (the "**Loan Repayment Date**") and, subject to such repayment, as set forth in the Loan

Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

5.2 Early Redemption

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement prior to the Loan Repayment Date, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with interest accrued to the date of redemption, and the Issuer will endeavour to give not less than 25 nor more than 60 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

- (a) the Bank may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and
- (b) the Issuer may require the Bank to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.4 of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Bank following acceleration of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (Payments)) following receipt of such amounts, subject as provided in Condition 7 (Payments).

5.3 Change of Control Put Event

5.3.1 If a Change of Control Put Event (as defined below) shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at its principal amount together with and accrued interest (if any) to the Change of Control Put Settlement Date.

5.3.2 Promptly upon the Issuer becoming aware (either by receiving written notice from the Bank or otherwise) that a Change of Control Put Event has occurred, the Issuer shall procure that a notice is given (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 13 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

5.3.3 In order to exercise the Change of Control Put Option, the Noteholder must deliver during the period commencing on (and including) the date the Change of Control Put Event Notice is given to (and including) the date that is 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the Specified Office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Paying Agent of such

holder's entitlement to such Note and a duly completed change of control put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the relevant Paying Agent shall notify in writing the Issuer and the Bank of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Bank and (ii) as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

- 5.3.4 The Trustee shall not be required to take any steps to ascertain whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred and will not be responsible or liable to Noteholders for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 6 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.
- 5.3.5 For the purposes of these Conditions, a "**Change of Control**" shall occur at any time the Republic of Tatarstan ceases to be the beneficial owner, directly or indirectly, of more than 25 per cent. plus one share of the issued and outstanding voting share capital of the Bank.
- 5.3.6 "**Change of Control Put Event**" means a Change of Control has occurred.

5.4 **Purchase**

The Loan Agreement provides that the Bank or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of the Bank or such Subsidiary, surrendered by the Bank or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent to cancel such Notes. Upon such cancellation by or on behalf of the Principal Paying Agent, the Loan shall be deemed to have been prepaid by the Bank in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payments shall be made or required to be made by the Issuer in respect of such Notes. The Notes so purchased, while held by or on behalf of the Bank or any Subsidiary, until such time as they are cancelled, shall not entitle the holder to vote at any meetings of the Noteholders or on any Written

Resolutions and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders for the purposes of Condition 10.1.

6. Payments

6.1 Principal

Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

6.2 Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

6.3 Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8, no commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.4 Payments on Business Days

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "business day" means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City, Moscow and in the city where the Specified Office of the Principal Paying Agent is located.

6.5 Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

6.6 Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

6.7 Payments by the Bank

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

6.8 Currency other than U.S. Dollars

In respect of the Issuer's obligations under Conditions 5, 6 and 8, and subject to the following sentence, if the Issuer receives any amount under the Loan Agreement in a currency other than U.S. Dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. Dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.5 of the Loan Agreement with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7.

7. Taxation

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

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Bank under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the

currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable:

- (a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland or the Russian Federation other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (b) in respect of a Certificate presented for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such thirtieth day;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Directive 2003/48/EC of 3 June 2003 regarding taxation of savings;
- (d) where such withholding or deduction is required in connection with FATCA; or
- (e) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Loan Agreement or the Trust Deed.

8. **Enforcement**

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement), or a Relevant Event (as defined in the Trust Deed), the Trustee (subject to the non-petition covenant in Condition 1) may, at its discretion, and shall, if

requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in each case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, take the action permitted to be taken by the Issuer as lender under the Loan Agreement (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Loan or the receipt in full of all principal and interest accrued under the Loan pursuant to a winding-up or liquidation of the Bank following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

9. Meetings of Noteholders; Modification; Waiver; Substitution of the Lender

9.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification or abrogation by Extraordinary Resolution of any provision of the Loan Agreement, these Conditions or the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; provided, however, that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing at least three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to vote at a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

9.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed, the Agency Agreement, the Account Bank Agreement or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or

proposed breach by the Issuer of the Conditions, or the Trust Deed or, following the creation of the Security Interests, by the Bank of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders and provided always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

9.3 Substitution

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as Lender under the Loan Agreement, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

9.4 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10. Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

11. Trustee and Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any action, step or proceedings to enforce payment unless indemnified

and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Bank in respect of the Loan Agreement. Until it has actual knowledge to the contrary, the Trustee is entitled to assume that the Bank is performing all of its obligations pursuant to the Loan Agreement (and shall have no liability for doing so).

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal paying agent and a registrar and (b) a paying agent and transfer agent having Specified Offices in at least two major European cities approved by the Trustee.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Replacement of Certificates

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations, be replaced at the Specified Office of the Registrar or the Transfer Agent having its Specified Office in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. For so long as the Notes are listed, the Issuer will also publish notices in accordance with the rules of the Stock Exchange.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then any such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Stock

Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a loan agreement with the Bank on the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, only relate to the Reserved Rights and would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders. Such further Notes shall be issued under a deed supplemental to the Trust Deed.

15. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. Governing Law

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the same are governed by and shall be construed in accordance with, English law. The courts of England have exclusive jurisdiction to settle any dispute arising from or connected with the Trust Deed or the Notes (including a dispute regarding the existence, validity or termination of the Trust Deed or the Notes) or the consequences of their nullity. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England. The Trustee, however, is not prevented under the terms of the Trust Deed from taking proceedings in any other courts with jurisdiction and, to the extent allowed by applicable law, the Trustee may take concurrent proceedings in any number of jurisdictions.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement which will be entered into between the Borrower and the Issuer.

This Agreement is made on 7 November 2016 between:

- (1) **PUBLIC JOINT STOCK COMPANY "TATFONDBANK"**, a commercial bank organised as a public joint stock company established under the laws of the Russian Federation whose registered office is 43/2 Chernyshevsky Street, Kazan, Republic of Tatarstan, Russian Federation, as borrower (the "**Borrower**"); and
- (2) **TFB FINANCE D.A.C.**, a designated activity company incorporated under the laws of Ireland, whose registered office is at 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland, as lender (the "**Lender**", which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

WHEREAS:

- (A) The Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of U.S.\$ 60,000,000 on the terms and subject to the conditions of this Agreement.
- (B) It is intended that, concurrently with the extension of the Loan (as defined below) under this Agreement, the Lender will issue the Notes (as defined below) in the aggregate nominal amount corresponding to the principal amount of the Loan and bearing the same rate of interest as the Loan.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

"**Account**" means the account with account number 1160858400 in the name of the Lender with The Bank of New York Mellon, London Branch;

"**Advance**" means the advance to be made by the Lender under Clause 3 (*Drawdown*) of the sum equal to the amount of the Facility, as from time to time reduced by repayment or prepayment in accordance with Clause 5 (*Repayment and prepayment*);

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

or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

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

"**Agency Agreement**" means the agency agreement relating to the Notes to be dated the Closing Date, as amended, varied or supplemented from time to time;

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

"**Auditors**" means the auditors of the Borrower's IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose;

"**Authorised Signatory**" means, in relation to the Borrower, any person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such person and confirming such person's authority to act;

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks generally are open for business in Dublin, Moscow, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

"**Central Bank**" means the Central Bank of the Russian Federation;

"**Change of Control**" means at any time the Loan is outstanding, the Republic of Tatarstan ceases to be the beneficial owner, directly or indirectly, of more than 25 per cent. plus one share of the issued and outstanding voting share capital of the Borrower;

"**Change of Control Payment Date**" means the fourth Business Day after the expiration of the Change of Control Put Period;

"**Change of Control Put Option**" means the change of control put option granted to the Noteholders pursuant to the Conditions;

"**Change of Control Put Period**" has the meaning given to it in the Conditions;

"**Change of Control Put Settlement Date**" has the meaning given to it in the Conditions;

"**Closing Date**" means 9 November 2016;

"**Conditions**" means the terms and conditions of the Notes, as set out in Part B of Schedule 1 to the Trust Deed and all references to a numbered "**Condition**" are to the corresponding provision thereof;

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

"Facility" means the facility granted by the Lender to the Borrower, as specified in Clause 2 (*Facility*).

"Facility Fee" has the meaning assigned to such term in Clause 2.3 (*Facility Fee*);

"Funding Documents" means this Agreement, the Trust Deed, the Subscription Agreement, the Agency Agreement, the Upfront Fee Side Letter, the Ongoing Fee Side Letter and any other document entered into in connection with, or related to, the issue of the Notes;

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

"IFRS" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board, as amended, supplemented or re-issued from time to time;

"Indebtedness" means, without duplication, any indebtedness, in respect of any person for, or in respect of moneys borrowed or raised including, without limitation:

- (a) any amount raised by acceptance under any acceptance credit facility;
- (b) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (c) any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder;
- (d) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and
- (e) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

"Independent Appraiser" means any third party expert in the matter to be determined of international standing appointed by the Borrower pursuant to Clause 10.4 (*Transaction with Affiliates*) and approved by the Lender and the Trustee, *provided, however, that* such Independent Appraiser is not an Affiliate of the Group;

"Interest Payment Date" means 12 May and 12 November of each year, commencing on 12 May 2017 and ending on 12 November 2019, provided that, for the avoidance of doubt, no interest payment will be due on 12 November 2016;

"Interest Period" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

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

"Loan" means, at any time, an amount equal to the aggregate amount of the Facility granted by the Lender pursuant to this Agreement and outstanding at such time;

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or any of its Subsidiaries; (b) the Borrower's ability to perform or comply with its obligations under this Agreement, the Agency Agreement or the Subscription Agreement or (c) the validity or enforceability of this Agreement, the Agency Agreement or the Subscription Agreement or the rights or remedies of the Lender thereunder;

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

- (a) whose total assets (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets) represents not less than ten per cent. of the total consolidated assets of the Group, all as calculated by reference to the then latest nonconsolidated or, as the case may be, consolidated accounts, which have been audited or reviewed by the auditors of such Subsidiary and the latest audited consolidated accounts of the Group (such audited consolidated accounts of the Group to be produced on the basis of IFRS, consistently applied); or
- (b) to which is transferred all, or substantially all, the assets and undertaking of a Subsidiary which immediately prior to such transfer was a Material Subsidiary pursuant to (a) above;

"Noteholder" means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of Noteholders (or, in the case of joint holders, the first named holder thereof) and **"Noteholders"** shall be construed accordingly;

"Notes" means the U.S.\$ 60,000,000 8.5 per cent. loan participation notes due 2019 issued by the Lender and constituted by the Trust Deed;

"Officers' Certificate" means a certificate signed by two authorised officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"Ongoing Fee Side Letter" means the letter agreement to be dated the Closing Date between the Borrower, the Lender and the other persons named therein, as amended, varied or supplemented from time to time;

"Opinion of Counsel" means a written opinion from international legal counsel who is acceptable to the Lender and the Trustee;

"Original Financial Statements" mean the most recent audited consolidated financial statements of the Borrower;

"Permitted Liens" means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and
 - (iii) such Lien is removed or discharged within four calendar months of the date of acquisition of such asset;
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) such Lien is removed or discharged within four calendar months of such company becoming a member of the Group;
- (c) any Lien comprising a netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3 (*Disposals*), does not, at any such time, exceed 25 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS;
- (e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- (f) any Lien arising by operation of law and in the normal course of business, if such Lien is discharged within 30 days of arising;

- (g) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (h) Liens for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (i) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;
- (j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;
- (l) Liens upon or with respect to immovable property acquired by the Group after the date of this Agreement where the aggregate value of such immovable property subject to such Liens does not at any one time exceed U.S.\$ 20,000,000 (or its equivalent in other currencies);
- (m) any Liens existing on the date of this Agreement;
- (n) any other Lien or Liens where the aggregate value of the assets or revenues subject to such Lien or Liens does not exceed U.S.\$ 15,000,000 (or its equivalent in other currencies); and
- (o) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (n), provided however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (o) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question).

"person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or Agency of a state or other entity, whether or not having separate legal personality;

"Potential Event of Default" means any event or circumstance which is, or after notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) could be, an Event of Default;

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

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

"Repayment Date" means 12 November 2019;

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

"Rouble" means the lawful currency from time to time of the Russian Federation;

"Same-Day Funds" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in immediately available, freely transferable and cleared Dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"Security" means the security granted by the Lender to the Trustee under the Trust Deed over the rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee;

"Subscription Agreement" means the subscription agreement dated the date hereof providing for the issuance and subscription of the Notes;

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

- (a) whose affairs and policies the first person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first person;

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any country through which a party makes payments, or any tax authority thereof or therein, *provided, however, that* for the purposes of this definition references to Ireland shall, upon the occurrence of a Relevant Event (as defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is resident for tax purposes; and the term **"Taxation"** shall be construed accordingly;

"Trust Deed" means the trust deed to constitute the Notes to be dated the Closing Date and made between the Issuer and the Trustee, as may be amended, varied or supplemented from time to time;

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

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

"U.S. dollars", "Dollars", and "U.S.\$" mean the lawful currency of the United States of America.

1.2 **Other Definitions**

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

1.3 **Interpretation**

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

- (a) All references to "Clause" or "Sub-clause" are references to a clause or sub-clause of this Agreement.
- (b) The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.
- (c) Words importing the singular number include the plural and *vice versa*.
- (d) All references to "taxes" include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.
- (e) The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. **FACILITY**

2.1 **Facility**

On the terms and subject to the conditions set forth herein and subject to the terms and conditions in the Subscription Agreement, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a loan facility in the amount of U.S.\$ 60,000,000 (the **"Facility"**), to be drawn down in a single Advance on the Closing Date.

2.2 **Purpose**

The proceeds of the Advance will be used by the Borrower for general banking purposes but the Lender shall not be concerned with the application thereof.

2.3 **Facility Fee**

The Borrower shall pay such fee to the Lender in connection with the provision of the Facility (the "**Facility Fee**") as separately set out in paragraph 1 of the Upfront Fee Side Letter.

3. **DRAWDOWN**

3.1 **Drawdown**

On the terms and subject to the conditions set forth herein, including Clause 7 (*Conditions Precedent*), on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Advance.

3.2 **Facility Fee Payment**

The Borrower agrees to pay the Facility Fee to the Lender in Same-Day Funds by 3.00 p.m. (London time) one Business Day prior to the Closing Date.

3.3 **Disbursement**

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance to the Borrower's account held with PJSC PROMSVYAZBANK, Russia, with details: SWIFT: PRMSRUMMXXX, account No. 30109840910000112101.

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender making available the Facility hereunder to the Borrower, the Borrower shall pay on demand to the Lender each year a maintenance fee (the "**Maintenance Fee**") in an amount equal to all properly incurred and documented ongoing costs, charges, liabilities and taxes and expenses of the Lender as set forth in the Ongoing Fee Side Letter. The amount of the Maintenance Fee shall be calculated by the Lender and notified to the Borrower.

4. **INTEREST**

4.1 **Rate of Interest**

The Borrower will pay interest in Dollars to the Lender on the outstanding amount of the Loan from time to time hereunder at the rate of 8.5 per cent. per annum (the "**Rate of Interest**").

4.2 **Payment**

The Rate of Interest shall accrue from day to day starting from (and including) the Closing Date to (but excluding) the Repayment Date, and shall be paid in arrear not later than 10.00 am (London time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clauses 5.2 (*Special Prepayment*), 5.3 (*Prepayment in the Event of Change of Control*) or 5.4 (*Illegality*) or repaid pursuant

to Clause 11 (*Events of Default*)), provided that, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before or after any judgment) at the relevant Rate of Interest to, but excluding, the date on which payment in full of the whole or the relevant proportion (as applicable) of the principal amount of the Loan is made.

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the applicable Rate of Interest to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is otherwise required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan, all accrued but unpaid interest and any additional amounts not later than 3:00 p.m. (London time) one Business Day prior to the Repayment Date.

5.2 Special Prepayment

If, (a) as a result of the application of any amendments to or change in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any constituent part or political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in, or clarification of, the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of this Agreement, (b) as a result of the enforcement of the Security, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*)), or (c) if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8 (*Change in Law or Banking Practices; Increase in Cost*) and, in any such case, such additional amounts cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 10 days' notice to the Lender (copied to the Trustee) specifying the date for prepayment of the Loan and attaching an Officers' Certificate confirming that the Borrower would be required to increase the amount payable or to pay additional amounts supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

5.3 Prepayment in the Event of Change of Control

5.3.1 Promptly, and in any event within 10 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender and the Trustee a written notice in the form of an Officers' Certificate, which notice shall be

irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

- 5.3.2 If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, the Borrower shall on the Change of Control Payment Date, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to the Borrower by the Paying Agents) in relation to which the Change of Control Put Option has been duly exercised together with interest accrued to the Change of Control Put Settlement Date in accordance with the Conditions.

5.4 Illegality

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

5.5 Reduction of Loan Upon Redemption and Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by the Borrower in an amount equal to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clauses 5.2 (*Special Payment*), 5.3 (*Prepayment in the Event of Change of Control*) or 5.4 (*Illegality*), the Borrower shall, simultaneously with such prepayment, pay to the

Lender interest thereon accrued to (i) in case of prepayment under Clauses 5.2 (*Special Payment*) and 5.4 (*Illegality*), the date of actual receipt by the Lender of payment of principal or (ii) in case of prepayment under Clause 5.3 (*Prepayment in the Event of Change of Control*), the Change of Control Put Settlement Date, and all other sums payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5 (*Reduction of Loan Upon Redemption and Cancellation of Notes*), then no interest shall accrue or be payable during the period from the preceding Interest Payment Date up to the date upon which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Provisions Exclusive

The Borrower may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

6. PAYMENTS

6.1 Making of Payments

All payments of principal or interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 am (London time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Account. The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Conditions.

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

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of, and without deduction for or on account of, any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due hereunder to such amount as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such withholding, deduction or increased payment) a net amount in Dollars equal to the full amount which it would have received and retained had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in Dollars for such documented payment on demand. For the avoidance of doubt, this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-up*) is without prejudice to any obligations of the Lender contained in Clause 6.7 (*Tax Treaty Relief*).

6.3 **Withholding on the Notes**

If the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged to make any withholding or deduction for or on account of any Taxes from any payment which is due, or would otherwise be due but for the imposition of any such withholding or deduction for or on account of any such Taxes under or in respect of the Notes, the Borrower agrees to pay to the Lender, not later than 3.00 p.m. (London time) one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender, such additional amounts as are equal to the said additional amounts which the Lender must pay in order that the net amount received by the Noteholders after such deduction or withholding will be equal to the amount that the Noteholders would have received in the absence of such deduction or withholding; *provided, however, that* the Lender shall, immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender's obligations under Condition 8 and to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, repay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to any such additional amount). Any notification by the Lender to the Borrower in connection with Clause 6.3 (*Withholding of the Notes*) shall be given as soon as practicable upon the Lender becoming aware of its obligation to make any such withholding or deduction.

6.4 **Tax Indemnity**

Without prejudice to, and without duplication of the provisions of Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding of the Notes*), if at any time the Lender makes or is required to make any payment to a person on account of any Taxes in respect of the Loan or the Notes imposed by Ireland or any taxing authority of Ireland, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable after, and in any event within 30 calendar days of, a written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such documented payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax) payable or incurred in connection therewith.

Any payment required to be made by the Borrower under this Clause 6.4 is a "**Tax Indemnity Amount**".

6.5 **Reimbursement**

To the extent that the Lender subsequently obtains and uses any tax credit or allowance or other reimbursements relating to a deduction or withholding or to any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to this Clause 6 (*Payments*) in respect of amounts received by it, the Lender shall promptly pay to the Borrower so much of (but in any event no amount greater than) the benefit it received and retained as will leave the Lender in substantially the

same position as it would have been in had no additional amount been required to be paid by the Borrower pursuant to this Clause 6 (*Payments*); *provided, however, that* the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender acting reasonably. Subject to Clauses 6.6 (*Mitigation*) and 6.7 (*Tax Treaty Relief*), the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations, provided that the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives in respect of any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to Clause 6.4 (*Tax Indemnity*).

If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on the Notes*): (a) such taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on the Notes*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above, the Borrower applies on behalf of the Lender to the competent taxing authority for a withholding tax refund (the Borrower having notified the Lender of such application) and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify the Borrower of the receipt of such withholding tax refund and promptly transfer the actually received and retained amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of the Borrower specified for that purpose by the Borrower.

6.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.6 (*Mitigation*).

6.7 Tax Treaty Relief

The Lender shall, to the extent it is able to do so under applicable law including, without limitation, Irish and Russian laws, use its best endeavours to obtain and to deliver to the Borrower at the Borrower's expense and request:

a certificate issued by the competent Irish authorities confirming that the Lender is resident in Ireland at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year; and

- (f) such other information or forms as may need to be duly completed and delivered by the Lender to enable the Borrower to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained,

provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Irish authorities, but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

Such a certificate and any other information or forms (as applicable) shall be appropriately apostilled at the Borrower's expense.

7. CONDITIONS PRECEDENT

The obligation of the Lender to make the Advance shall be subject to the condition precedent that as of the Closing Date the Lender shall have received in full the proceeds of the issue of the Notes pursuant to the Subscription Agreement.

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

8.1 Compensation

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

- (a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in

Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*)); or

- (b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*)); or
- (c) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; *provided, however, that* the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or
- (d) imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on, or calculated by reference to, the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on, or calculated by reference to, the gross amount of the Loan,

then subject to the following, and in each such case:

- (A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two directors of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or

payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such notes; and

- (B) the Borrower, in the case of sub-paragraphs (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-paragraph (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; *provided, however, that* in the case of paragraph (c) above (relating to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement and provided that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 8.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*) or 6.4 (*Tax Indemnity*).

8.2 Mitigation

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

9. REPRESENTATIONS AND WARRANTIES

9.1 Borrower's Representations and Warranties

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

- (a) it and each of its Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of

incorporation, is not in liquidation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and/or delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

- (b) this Agreement has been duly executed and delivered by and constitutes a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, (ii) to the fact that the gross-up provisions contained Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*) and tax indemnity provisions contained in Clause 6.4 (*Tax Indemnity*) may not be enforceable under Russian law, and (iii) with respect to the recognition of an arbitral award, to the laws of the relevant jurisdiction where such award must be enforced and whether there is a treaty in force relating to the mutual recognition of arbitral awards;
- (c) the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of or default under (i) any applicable law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Borrower or any of its Subsidiaries or the terms of the banking licence granted to the Borrower by the Central Bank or (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Subsidiaries is a party or which is binding upon the Borrower or any of its Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument, save where, in respect of (iii) above, such breach or violation or Liens would not have a Material Adverse Effect;
- (d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the Central Bank), other than any Russian law requirements to provide a Russian court with a duly notarised Russian translation of this Agreement in connection with any proceedings in respect thereof, required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in

evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;

- (e) no Event of Default or Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of the Borrower or any Material Subsidiary has occurred and is continuing, and no such event will occur upon the making of the Advance;
- (f) there are no governmental, judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which could, singly or in the aggregate, reasonably be expected to have a Material Adverse Effect;
- (g) except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1 (*Definitions*), the Borrower and each of its Subsidiaries has good title to its property free and clear of all Liens and the Borrower's obligations under the Loan rank at least *pari passu* with all its other present and future unsecured and unsubordinated Indebtedness;
- (h) the audited consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 2014 and the interim condensed consolidated statements of the Group for the six months ended 30 June 2016;
 - (i) were prepared in accordance with IFRS, as consistently applied;
 - (ii) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
 - (iii) save as disclosed therein, give a true and fair view of the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year;
- (i) since the date of the latest reviewed IFRS consolidated financial statements of the Group, there has been no significant change in the financial or trading position of the Group and no material adverse change in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or in the Borrower's ability to perform its obligations under this Agreement;
- (j) the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any constituent part or political subdivision or taxing authority thereof or therein (other than

state duty paid on any claim, petition or other application filed with a Russian court);

- (k) neither the Borrower nor any Subsidiary of the Borrower nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;
- (l) the Borrower and each of its Subsidiaries is in compliance in all material respects with all provisions of applicable law, rule, regulation, judgment, order or decree of any government, governmental authority, domestic or foreign, having jurisdiction over the Borrower, any of its Subsidiaries or any of their respective properties;
- (m) there are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes of or against the Borrower or any of its Subsidiaries which have been started or are pending or, to the Borrower's knowledge, threatened;
- (n) in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;
- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding or deduction in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;
- (p) (i) all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Subsidiaries to own its assets and carry on its business are in full force and effect; (ii) the Borrower and its Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations; (iii) all conditions applicable to any such licences, consents, examinations, clearances, filings, registrations or authorisations have been and are complied with, and (iv) none of the Borrower nor any Subsidiary of the Borrower is in breach of any such licences, consents, examinations, clearances, filings, registrations or authorisations, and there are no circumstances or proceedings which indicate that any such licences, consents, examinations, clearances, filings, registrations or authorisations may be revoked, rescinded, modified, avoided or repudiated or not renewed, in whole or in part, in the ordinary course of events;

- (q) with respect to the offer and sale of the Notes pursuant to the Subscription Agreement (i) neither it nor any of its Affiliates nor any Person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933 ("**Regulation S**"); and (ii) the Borrower, its Affiliates and any Persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S;
- (r) it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes;
- (s) neither the Borrower nor any of its Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate taxing authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against it or any of its Subsidiaries; and
- (t) neither the Borrower nor any of its Subsidiaries has taken any corporate action nor, to the knowledge of the Borrower, having made due enquiry, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Subsidiaries for its bankruptcy (including any bankruptcy prevention measures), insolvency, dissolution, liquidation (or any analogous proceedings) or any proceedings in any jurisdiction of an analogous nature including any bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.

9.2 **Lender's Representations and Warranties**

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

- (a) the Lender is duly incorporated and validly existing under the laws of, and is a resident for Irish tax purposes in, Ireland and has full power and capacity to execute this Agreement, to advance the Loan, to issue the Notes and to undertake and perform the obligations expressed to be

assumed by it herein and therein and the Lender has taken all necessary corporate, legal and other action to approve and authorise the same;

- (b) the execution of this Agreement, the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or any agreement or instrument to which the Lender is a party or by which it is bound or the constitutive documents of the Lender;
- (c) this Agreement and the Notes, the Subscription Agreement, the Ongoing Fee Side Letter, the Upfront Fee Side Letter, the Agency Agreement and the Trust Deed will, on the Closing Date, have been duly executed by, and constitute (or, in the case of Agency Agreement and the Trust Deed, will on the Closing Date constitute) legal, valid and binding obligations of, the Lender enforceable in accordance with their terms, subject, as to enforcement, to the laws of bankruptcy and other laws affecting the rights of creditors generally;
- (d) all authorisations, consents and approvals of, or filings with, any governmental, judicial or public authority, required in Ireland by the Lender for or in connection with the execution, and admission in evidence, of the Funding Documents, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;
- (e) the Lender is resident in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to the effect that it is resident in Ireland from the Irish tax authorities;
- (f) on the assumption that entering into this Agreement or any other loan agreements with the Borrower and undertaking the transactions contemplated therein does not cause the Lender to be considered to have a permanent establishment in the Russian Federation, the Lender does not have a permanent establishment in the Russian Federation; and
- (g) the Lender does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Ireland for tax purposes.

10. COVENANTS BY THE BORROWER

So long as any amount remains outstanding hereunder:

10.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or permit to subsist any Liens, other than Permitted Liens, on any of its or their undertakings, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Loan is (a) secured equally and rateably with such other Indebtedness to the satisfaction of the Lender and the Trustee or (b) has the benefit of such other security or other arrangement which is equivalent in all material respects to such security which shall be approved by the Lender.

10.2 Mergers

The Borrower (i) shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) shall ensure that, without the prior written consent of the Lender and the Trustee, no Subsidiary of the Borrower (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Subsidiary of the Borrower incorporated in a jurisdiction other than Russia, participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect.

10.3 Disposals

The Borrower shall not and shall ensure that its Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's length basis in the ordinary course of its business) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets unless such transaction(s) is/are (i) on an arm's length basis and on commercially reasonable terms and (ii) has/have been approved by a resolution of the appropriate decision making body of the Borrower resolving that the transaction complies with the requirements of this Clause 10.3 (*Disposals*) and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser. This Clause 10.3 (*Disposals*) shall be subject to the following proviso, namely that this Clause 10.3 (*Disposals*) shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Borrower on an arm's length basis and on commercially reasonable terms whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of "**Permitted Liens**" and permitted under the terms of this Agreement, does not at any time exceed 25 per cent.

of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS (or its equivalent in other currencies).

10.4 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless (a) (i) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary of the Borrower, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of the Borrower or such Subsidiary and (ii) such Affiliate Transaction has been approved by a decision adopted by the competent governing body of the Borrower or a Subsidiary (as the case may be); or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (including any amendments or modifications thereof) or such Affiliate Transaction is made pursuant to a contract concluded after the Closing Date for the sole purpose of refinancing an Affiliate Transaction subsisting on the Closing Date, provided that the aggregate value of any such financing is not greater than the aggregate value of the Affiliate Transaction being refinanced.

With respect to an Affiliate Transaction, which is not an Exempted Transaction or any Affiliate Transaction made pursuant to a contract existing on the Closing Date, involving aggregate payments or value in excess of U.S.\$ 20,000,000 (or its equivalent in other currencies), the Borrower shall deliver to the Lender and the Trustee, a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Subsidiary, as the case may be upon which opinion the Trustee shall be entitled to rely absolutely without further enquiry and without incurring any liability to any person for so doing.

For the purposes of this Clause 10.4 (*Transactions with Affiliates*), an "**Exempted Transaction**" means:

- (a) any transaction solely for the provision of credit scoring and/or information technology services;
- (b) any transaction solely for the provision of hedging services; or
- (c) any loan or deposit of an aggregate principal amount not exceeding U.S.\$ 30,000,000 (or its equivalent in other currencies).

This Clause 10.4 (*Transactions with Affiliates*) does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Subsidiary of the Borrower, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between the Borrower and any of its Subsidiaries or between any Subsidiaries of the Borrower.

10.5 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, provided that, in any case where the Borrower and/or the relevant Subsidiary, as the case may be, can and does remedy any failure to comply with this Clause 10.5 (*Maintenance of Authorisations*) within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

The Borrower shall, and shall ensure that its Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or such Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times provided that if the Borrower or any such Subsidiary can and does remedy any failure to comply with the above within 60 days or any failure relates to property with a value not exceeding U.S.\$ 10,000,000 (or its equivalent in other currencies), this covenant shall be deemed not to have been breached.

10.7 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of the Borrower and its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Subsidiaries; *provided, however, that* none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied, or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$ 5,000,000 (or its equivalent in other currencies).

10.8 Financial Information

- (a) The Borrower shall as soon as the same become available, but in any event within 180 days after the end of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.
- (b) The Borrower shall as soon as the same become available, but in any event within 120 days after the end of each half of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such period in each case reviewed by the Auditors and prepared in accordance with IFRS consistently applied.
- (c) The Borrower shall, so long as the Loan or any other sum owing under this Agreement remains outstanding, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender or the Trustee may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.
- (d) The Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.8 (*Financial Information*) is:
 - (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS as consistently applied;
 - (ii) in the case of the financial statements provided pursuant to paragraph (a) and paragraph (b), accompanied by a report and accompanying notes thereon of the Auditors and, in the case of paragraph (a) including opinions of such Auditors with accompanying notes and annexes, in each case, in a form satisfactory to the Lender; and
 - (iii) in the case of the financial statements and information provided pursuant to paragraph (c), certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.
- (e) the Borrower shall from time to time, on the request of the Lender, furnish the Lender and the Trustee with such information, opinions, certificates and other evidence about the business and consolidated financial condition of the Borrower or the Group as the Lender or the Trustee may reasonably require.

10.9 Capital Adequacy

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

10.10 Change of Business

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

10.11 Ranking of Claims

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

10.12 Officers' Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), or within 14 days of a request by the Lender, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto upon which Officers' Certificate the Trustee shall be entitled to rely absolutely without further enquiry and without incurring liability to any person for so doing.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender copied to the Trustee, written notice in the form of an Officers' Certificate listing its Subsidiaries upon which Officers' Certificate the Trustee shall be entitled to rely absolutely without further enquiry and without incurring liability to any person for so doing.

10.13 Notes Held by the Borrower

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

10.14 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement ("**Relevant Payments**") provided that, in the event that the Borrower is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian Federation or any requirement of the Central Bank or any other relevant authority, the Borrower undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the Central Bank in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under this Agreement.

10.15 Tax Reporting

The Borrower shall provide the Lender with sufficient information, provide all reasonable assistance necessary, and pay any costs associated with, compliance by the Lender with FATCA or otherwise imposed pursuant to FATCA and any regulations or agreements thereunder or official interpretation thereof or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) or any other tax reporting requirement which the Lender is subject to.

11. EVENTS OF DEFAULT

11.1 Events of Default

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

- 11.1.1 The Borrower fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days.
- 11.1.2 The Borrower fails to perform or observe or is otherwise in breach of any obligation, covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 15 Business Days.
- 11.1.3 Any representation or warranty by the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Agency Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any

material respect in the opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated.

11.1.4

- (i) any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or
- (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or subparagraph (ii) above, individually or in the aggregate, exceeds U.S.\$ 10,000,000 (or its equivalent in other currencies);

- 11.1.5 The occurrence of any of the following events: (i) any of the Borrower, or any of its Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower, or any of its Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower or its Subsidiaries in any court of competent jurisdiction, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of any of the procedures set out in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 in respect of the Borrower or any of its Subsidiaries, (iv) any judicial liquidation in respect of the Borrower or, if applicable, any of its Subsidiaries; and/or (vii) revocation of any of the banking licences of the Borrower or, if applicable, of any of its Subsidiaries.
- 11.1.6 The Borrower or any of its Subsidiaries is unable, or admits inability to, pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness; the value of the assets of the Borrower or of any its Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of the Borrower or any of its Subsidiaries.
- 11.1.7 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part (in the opinion of the Lender) of, the property, undertaking, revenues or assets of the Borrower or any of its Subsidiaries.

- 11.1.8 Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect.
- 11.1.9 Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect on the Borrower or any of its Subsidiaries, including, without prejudice to the foregoing: (i) the management of the Borrower or any of its Subsidiaries is wholly or partially displaced or the authority of the Borrower or any of its Subsidiaries in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of the Borrower or any of its Subsidiaries or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) any of the Borrower's banking licences is revoked.
- 11.1.10 The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower other than by way of a reorganisation permitted pursuant to Clause 10.2 (*Mergers*).
- 11.1.11 The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower and other Subsidiaries of the Borrower in the aggregate exceeds U.S.\$ 10,000,000 (or its equivalent in other currencies) and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 11.2 (*Notice of Default*).
- 11.1.12 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in paragraph (b) of Clause 9.1 (*Borrower's Representations and Warranties*)) are not, or cease to be, legal, valid, binding and enforceable.
- 11.1.13 The Borrower or any of its Subsidiaries ceases to carry on the principal business it carried on at the date hereof.
- 11.1.14 The Borrower repudiates this Agreement, the Subscription Agreement, the Upfront Fee Side Letter, the Ongoing Fee Side Letter or the Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement, the Upfront Fee Side Letter, the Ongoing Fee Side Letter or the Agency Agreement.
- 11.1.15 The charter of the Borrower is amended in a way which would contravene or result in the contravention of any material provision of this Agreement.
- 11.1.16 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-clauses.

11.2 Notice of Default

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

11.3 Default Remedies

11.3.1 If any Event of Default shall occur and be continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower, (a) declare the Facility and the obligations of the Lender hereunder to be immediately terminated, whereupon the Facility and such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; *provided, however, that* if any event of any kind referred to in Clauses 11.1.5, 11.1.6 or 11.1.10 occurs, the Facility and obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.3.2 If, pursuant to Clause 11.3.1, the Lender and/or the Trustee declares the outstanding principal amount of the Facility to be due and payable on demand of the Lender and/or the Trustee, then, and at any time thereafter, the Lender and/or the Trustee, may, by written notice to the Borrower, require repayment of the outstanding principal amount of the Facility on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

11.4 Other remedies

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

11.5 Rights Not Exclusive

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

12. **DEFAULT INTEREST AND INDEMNITY**

12.1 **Default Interest Periods**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefore in accordance with the provisions of Clause 6 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 12, be selected by the Lender, but shall in any event not be longer than one month.

12.2 **Default Interest**

During each such period relating thereto as is mentioned in Clause 12.1 an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

12.3 **Payment of Default Interest**

Any interest which shall have accrued under Clause 12.2 in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

12.4 **Indemnification**

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation Taxes, any value added tax, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), the Ongoing Fee Side Letter and/or the issue, constitution, sale, listing, admission to trading and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such documented Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such loss was caused either by such indemnified party's negligence, bad faith or wilful misconduct. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 12.4 (*Indemnification*).

12.5 **Independent Obligation**

Clause 12.4 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.6 **Evidence of Loss**

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.4 (*Indemnification*) and specifying in full detail the basis therefor shall, in the absence of manifest error, be *prima facie* evidence of the amount of such losses, expenses and liabilities.

12.7 **Survival**

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on the Notes*), 6.4 (*Tax Indemnity*), 6.5 (*Reimbursement*) and 12.4 (*Indemnification*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by the Borrower.

12.8 **Currency Indemnity**

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

13. **GOVERNING LAW AND JURISDICTION**

13.1 **Governing law**

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

13.2 **Jurisdiction**

The parties irrevocably agree that any dispute arising out of or connected with this Agreement, including a dispute as to the validity or existence or termination of this Agreement or the consequences of its nullity and/or this Clause 13.2 (*Jurisdiction*)

(a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) ("**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause, save that, Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA. The parties agree to exclude the jurisdiction of the English court under sections 45 and 69 of the Arbitration Act 1996.

13.3 **Consent to Enforcement**

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

13.4 **Waiver of immunity**

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

14. **NOTICES**

14.1 **Addresses for Notices**

All notices and other communications hereunder shall be made in writing and in English (by letter, fax or electronic communication) and shall be sent as follows:

(a) *Lender:* if to the Lender, to it at:

TFB Finance D.A.C.
3rd Floor, Kilmore House
Park Lane, Spencer Dock
Dublin 1, Ireland

Fax: + 353 1614 6250

Tel: + 353 1 614 6240

Email: Ireland@tmf-group.com
Attention: The Directors

(b) *Borrower:* if to the Borrower, to it at:

Public Joint Stock Company "Tatfondbank"
43/2 Chernyshevsky Street
Kazan, Republic of Tatarstan
Russian Federation

Fax: +7 (843) 291 1680
Email: vadimam@tfb.ru
Attention: Vadim Merzlyakov

14.2 Effectiveness

Every notice or other communication sent in accordance with Clause 14.1 shall be deemed to have been delivered, if sent by letter, 3 days after the date of despatch and if sent by fax or electronic communication it shall be deemed to have been delivered at the time of despatch, provided that a confirmation of successful transmission has been received by the notice provider, provided that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

15. ASSIGNMENT

15.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 15.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to Clause 6.5 (*Reimbursement*).

15.2 The Borrower shall not assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

15.3 Subject to Clause 15 (*Notices*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights (other than Reserved Rights (as defined in the Trust Deed) which cannot be assigned) and benefits or obligations under this Agreement except to the Trustee by granting the Security. In the event a successor Lender is appointed to act as lender, the Lender shall deliver to the successor Lender sufficient information to allow the successor Lender to perform its obligations under this Agreement and the successor Lender shall accede to this Agreement and at such time give the same representations, warranties and undertakings as set out herein.

16. GENERAL

16.1 Evidence of Debt

The entries made in the Account shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of the Borrower's obligations recorded therein.

16.2 Stamp Duties

- (a) the Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents and shall indemnify the Lender against any and all costs, penalties and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.
- (b) the Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, duties or similar charges and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes, duties or similar charges.

16.3 Waivers

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

16.4 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 of the Notes.

16.5 Contracts (Rights of Third Parties) Act 1999

Other than as expressly provided in this Agreement and other than the Trustee who shall have such rights under the Contracts (Rights of Third Parties) Act 1999 (the "**1999 Act**"), a person who is not a party to this Agreement has no right under the 1999 Act to enforce any term of this Agreement.

16.6 Counterparts

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

16.7 Language

The language which governs the interpretation of this Agreement is the English language. In the event of any discrepancy between the English and Russian versions of this Agreement, or in the event of any dispute regarding the interpretation of any provision in the English and Russian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

16.8 Amendments

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

16.9 Partial Invalidity

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

17. LIMITED RECOURSE AND NON PETITION

17.1 Non-Petition

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

17.2 Limited Recourse

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Lead Managers (as defined in the Subscription Agreement) under the Subscription Agreement shall rank in priority to

any claims of the Borrower hereunder, and that any such claim by the Lead Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any person acting on its behalf) shall be entitled at any time to institute against the Lender, or join with any other person as instituting or joining, insolvency proceedings (or any proceedings mentioned in the paragraph above) against the Lender.

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

The provisions of this Clause 17 (*Limited Recourse and Non Petition*) shall survive the termination of this Agreement.

In witness whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificate.

The Notes will be represented by the Global Certificate which will be registered in the name of The Bank of New York Mellon Depository (Nominees) Limited as nominee for the Bank of New York Mellon, London Branch.

Subject to receipt of funds from TFB, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder), for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention permanently to cease business or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 of the Notes which would not be suffered were the Notes in the form of Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of the Global Certificate Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

In addition, the Global Certificate will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of this provision:

Notices

Notwithstanding Condition 14 of the Notes, so long as the Global Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System provided that notices will at all times be issued in accordance with the applicable rules and, for as long as the Notes are listed on the Irish Stock Exchange, in accordance with the rules of the Irish Stock Exchange.

Payment

To the extent that the Issuer has actually received the relevant funds from TFB, payments in respect of Notes represented by the Global Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the

Notes, against presentation and surrender of such Global Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Certificate. Payment while Notes are represented by the Global Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System as appropriate. Condition 7 will apply to the Notes in definitive form only.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the Global Certificate may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders whilst the Global Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Global Certificate.

TAX CONSIDERATIONS

The following is a general description of the material Irish and Russian Federation tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes and the Loan, whether in those countries or elsewhere. Prospective investors should consult their own advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries in light of their particular circumstances. No representation with respect to the Russian tax consequences to any particular Noteholder is made hereby. Neither the Borrower nor the Issuer assumes any obligation to update this summary after the date of issuance for any such changes in law.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as taxation of interest and other payments on the Loan. The summary is based on the laws of the Russian Federation as in effect on the date of this Prospectus (where these laws are subject to changes, which could occur frequently, at short notice and may have a retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and/or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation, nor does it seek to address the availability of double tax treaty to and the eligibility of double tax treaty relief of any Noteholder in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock lending transactions with the Notes or into term deals, derivatives or any similar types of transactions with the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in different interpretations and the inconsistent application thereof by various Russian authorities in practice. Further, the substantive provisions of Russian tax laws and regulations applicable to securities and financial instruments may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent application as compared to jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory and subject to constant changes, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. The interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates and such interpretations may often be inconsistent and/or may often change. Furthermore, in the absence of binding precedents court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes, which may arise in their own particular circumstances. No representations with respect to the Russian tax consequences relevant to any particular Noteholder are made hereby.

For the purposes of this summary, the term "**Resident Noteholder**" means:

- a Noteholder that is (1) a Russian organisation that acquires, holds and disposes the Notes, or (2) a legal entity or an organisation, in each case organized under a non-Russian law, that acquires, holds and disposes the Notes through its permanent establishment in Russia (as defined by Russian tax law) or (3) a legal entity or an organisation established under a non-Russian law and recognized as Russian tax resident in accordance with the requirements set out in the Russian Tax Code, which acquires, holds and disposes the Notes (the "**Resident Noteholder-Legal Entity**"). A legal entity or an organisation established under a non-Russian law shall be recognized as a Russian tax resident if (1) it is deemed to be tax resident of the Russian Federation in accordance with an applicable double tax treaty and/ or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty.
- a Noteholder who is an individual who satisfies the criteria for being a Russian tax resident, who acquires, holds and disposes the Notes (the "**Resident Noteholder-Individual**"). A "Russian tax resident" is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term "**Non-Resident Noteholder**" means:

- a Noteholder that is a legal entity or an organisation, in each case not organised under the Russian law which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Legal Entity**"),
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes the Notes (the "**Non-Resident Noteholder-Individual**").

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of the Russian tax law as written as at the date of this Prospectus. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As at the date of this Prospectus, the law is worded in a way that implies the potential for individuals to be tax resident in Russia for a part of a calendar year. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in Russia for the full calendar year and, consequently, even where the travel pattern dictates differing

tax residency status for a part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to other articles of the Russian Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by outcomes of tax controversy through the courts.

Tax residency rules and Russia's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of interest payments made by the Borrower to the Issuer (or to the Trustee, as the case may be) under the Loan Agreement may affect the Noteholders. See Section "*Taxation of Interest on the Loan*" below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of the Non-Resident Noteholders-Legal Entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders-Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders-Legal Entities.

Interest on the Notes

Non-Resident Noteholders-Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. The taxation of interest on the Notes may however be affected by the taxation treatment of interest on the Loan. See "*Taxation of Interest on the Loan*" below.

Sale or other Disposal of the Notes

Generally, there should be no Russian withholding tax on gains from sale or other disposal of the Notes imposed on Non-Resident Noteholder—Legal Entity. However, there is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations), where proceeds from sale or other disposal of the Notes are received from a source within Russia by a Non-Resident Noteholder—Legal Entity, which is caused by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organization

should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds. See "*Risk Factors — Risks Relating to Russian Taxation*"

Redemption of the Notes

Non-Resident Noteholders-Legal Entities should not be generally subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of Non-Resident Noteholders-Individuals

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders-Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities (taking into account that the Notes will be initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). If the acquisition price of the Notes is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may be subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of the acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-Resident Noteholders-Individuals will depend on whether this income would be qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of acquisition transaction, the location of the issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by Non-Resident Noteholders-Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

Interest on the Notes

Non-Resident Noteholders-Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and/or interest on the Loan. See Sections "*Sale or other Disposal of the Notes*" and "*Taxation of Interest on the Loan*" below.

Sale or other Disposal of the Notes

Non-resident Noteholders—Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from redemption, sale or other disposal of the Notes by a Non-Resident Noteholder – Individual is classified as income from Russian sources for Russian personal income tax purposes, as such, these proceeds will become subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the Notes (including accrued and paid interest on the Notes) less any available duly documented cost deductions. Since the Russian Tax Code does not contain any additional guidance as to when the sale or other disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are sold or disposed of "in Russia". In the absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the proceeds from sale or other disposal, including looking at the place of conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sale or disposal proceeds received by Non-Resident Noteholders-Individuals will not become taxable in Russia.

The tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on the Notes) decreased by the amount of duly documented cost deductions (including the original acquisition costs and documented expenses related to the acquisition, holding and the sale or other disposal of the Notes) provided that such documentation is duly executed and is available to the tax agent which is obliged to calculate and withhold the tax in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or the person remitting the respective income to the Non-Resident Noteholders—Individuals (where such person is considered as the tax agent obliged to calculate and withhold Russian personal income tax and remit it to the Russian revenue), the immediate deduction will be disallowed and the Russian personal income tax will apply to the gross amount of sales or other disposal proceeds.

In certain circumstances, if sales or other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder-Individual by a Russian legal entity that is a licensed broker or an asset manager that is a Russian legal entity or organization carrying out operations under an asset management agreement, a brokerage services agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder-Individual, the applicable personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder-Individual. If the costs were incurred in connection with the acquisition of the Notes within the relationship with the party other than the tax agent who is obliged to

calculate and withhold Russian personal income tax under the above mentioned types of agreements, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and submission of the documents confirming the costs.

Where a sale is made to other legal entities, organizations (other than licensed brokers or asset managers mentioned in the preceding paragraph) or individuals, generally, no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder-Individual would then be required to file a personal income tax return individually, report on the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes, confirmed by the supporting documentation. The applicable personal income tax then will have to be paid by the Non-Resident Noteholder-Individual on the basis of the filed personal income tax return. In certain circumstances gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of sale or other disposal of the Notes and other securities of the same category (namely, securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes which would affect the total amount of personal income of the Non-Resident Noteholder-Individual subject to taxation in Russia.

There is a risk that any gain derived by a Non-Resident Noteholder-Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of the sale or other disposal of the Notes and Roubles. For personal income tax purposes deductible costs and proceeds from disposal of the Notes are converted into Roubles at the exchange rate of the CBR as of the date when the costs were incurred and proceeds were received. This may result in receipt of, or increase in, taxable income in Rouble terms due to devaluation of the Russian Rouble (whereas in foreign currency terms there might be no gain or even capital loss).

Non-Resident Noteholders-Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposal of the Notes, including the receipt of sales or other proceeds from a source within Russia upon the sale or other disposal of the Notes.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources including income relating to acquisition, holding, sale or other disposal of the Notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them such Non-Resident Noteholders must comply with the certification, information, and reporting requirements in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

In order to enjoy the double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., who qualifies as a "beneficial owner of income") should provide the tax agent with a tax residency certificate before the date of the

income payment. Before 1 January 2017 a tax agent that pays Russian source income has the right to request from a non-resident income recipient a confirmation that it has an actual right to receive the income in question, while starting from 1 January 2017 this is an obligation of such non-resident income recipient to provide such a confirmation to a tax agent in order to enjoy the double tax treaty benefits.

In order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty, a Non-Resident Noteholder-Individual has to provide to the tax agent a passport of a foreign citizen in order to prove his/her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. If the documents proving residency in the respective state are submitted to the tax agent after the personal income tax is withheld, the tax agent will be required to reimburse to the Non-Resident Noteholder-Individual the amount of tax withheld.

The Russian tax law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits.

Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty the tax agent is required to submit information to the Russian tax authorities on foreign individuals – recipients of income (passport details and citizenship) and income paid (type of income, amount of income and date of payment).

It is not explicit whether under the new law Russian citizens would be able to enjoy exemption from taxation at source under the respective double tax treaty in practice. The procedure of elimination of double taxation of Non-Resident Noteholders-Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, holding and the sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder-Legal Entity was withheld at source, despite the domestic release of such income from Russian withholding tax envisaged by the Russian Tax Code, a claim for a refund of the tax that was excessively withheld at source can be filed by that Non-Resident Noteholder-Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder-Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be available in practice.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder-Individual was withheld at source despite the right of such Non-Resident Noteholder-Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in

relation to such income, a claim for a refund of Russian personal income tax which was excessively withheld at source and application of the benefits of the applicable double tax treaty can be filed together with a passport of a foreign individual/ tax residency certificate issued by the competent authorities in his/ her country of residence with the tax agent within three years from the tax year when the corresponding income was received. In the absence of the tax agent who withheld the Russian personal income tax under consideration (e.g. in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years from the tax year when the corresponding income was received) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities.

There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information, which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

In practice a Non-Resident Noteholder when seeking for a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advanced tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non-Resident Noteholder in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding, sale or other disposal of the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia or Non-Resident Individual are subject to Russian withholding tax at the rate of 20 per cent. or 30 per cent., respectively, which could be potentially reduced or eliminated under the terms of an applicable double tax treaty.

However, no Russian withholding tax obligations should arise in Eurobond Structures by virtue of special exemption envisaged by the Russian Tax Code. The Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold tax from interest and other payments made to foreign entities provided that the following conditions are all met:

- (1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of "issued bonds", which are defined as bonds that are (a)

listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that have been registered in the qualifying foreign depository/clearing organisations;

The lists of qualifying foreign exchanges and foreign depository/clearing organisations were approved by Order No. 12-91/pz-n dated 25 October 2012 of the former Federal Financial Markets Service of the Russian Federation which came into force on 30 December 2012. The Irish Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the above-mentioned lists.

The connection between the loan and the issued bonds should be evident and supported with documents, which are set forth in the Russian Tax Code.

- (2) The recipient of interest on the loan is a foreign entity which is the issuer of issued bonds (i.e., the Issuer), or a foreign entity authorised to receive of interest income payable on the issued bonds, or a foreign entity to whom rights and obligations under bonds issued by another foreign entity have been assigned.
- (3) there is a double tax treaty between Russia and the jurisdiction of tax residence of the loan interest income recipient (namely the Issuer) and the issuer will be able to provide the obligor paying the interest under the loan (i.e. the Borrower) with a tax residency certificate.

We believe that it will be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold tax from payments of interest and certain other amounts, as the case may be, on the Loan to the Issuer, which satisfies the conditions set forth above throughout the term of the Loan and the Notes.

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although as at the date of this Prospectus there is no requirement or mechanism in the Russian tax legislation for the foreign income recipients being the legal entities to self-assess and pay the tax to the Russian revenue. The Russian Ministry of Finance acknowledged in its information letter that the release of Russian companies from obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. At the same time, this acknowledgement of the Russian Ministry of Finance has not been anyhow formalized so far. In a separate letter issued by the Russian Ministry of Finance on a later date, it opined that the foreign income recipient remains liable to tax, if the amount of tax was due to withholding and was not withheld by the Russian tax agent. The letter has not been, however, issued in connection with Eurobonds Structures. There can be no assurance, therefore, that such requirements, rules and mechanism for self-assessment and payment of the respective withholding taxes by non-residents will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond Structures or would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders and/ or the Trustee.

If interest and/or any other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold the tax under the Russian Tax Code would be available to the Borrower. Specifically, there is some uncertainty whether the Trustee will qualify for the “entity authorized to receive interest income payable on the issued bonds” containing in the

Russian Tax Code. It creates a potential risk that the Russian withholding tax at the rate of 20% (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30% (or such other tax rate that may be effective at the time of payment) should be deducted from the amount of interest and some other payments on the relevant Loan, if a Non-Resident Noteholder-Legal Entity or a Non-Resident Noteholder – Individual, respectively, has the actual right to the income concerned. Resident Noteholders that have actual right to interest and other income on the Loan will be subject to Russian personal income tax (for Resident Noteholders – Individuals) or corporate income tax (for Resident Noteholders – Legal Entities) at applicable Russian tax rates, which may be withheld at source or payable on a self-assessed basis. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under the applicable double tax treaty with Russia under such circumstances. In addition, while some Non-Resident Noteholders-Individuals might be eligible for the exemption from or the reduction in standard Russian withholding tax rate or Russian personal income tax rate, as the case may be under the applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent that they are applicable and could be relied upon by these Noteholders, there is no assurance that such exemption or reduction will be available to them in practice under these circumstances.

If any payments under the Loan become subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the Notes by the amount of such withholding tax), the Borrower and the Issuer will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase payments made by it under the Loan as may be necessary so that the net payments received by the Issuer, the Noteholders (as the case may be) will be equal to the amounts they would have received in absence of such withholding.

It is currently unclear whether the provisions of the Loan Agreement, obliging the Borrower to gross-up any payments payable under the Loan, will be enforceable under Russian law in effect as at the date of this Prospectus. There is a risk that gross up for Russian withholding tax will not take place and that payments made by the Borrower under the Loan will be reduced by the amount of the Russian income tax or Russian personal income tax withheld by it at source.

If the Borrower is obliged to increase any payments under the Loan or to make additional payments on the Loan as described above, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, the outstanding Notes will be redeemable or repayable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under the Loan.

Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are

of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
 - (i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or
 - (ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
 - (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - (A) from whom the Issuer has acquired assets;
 - (B) to whom the Issuer has made loans or advances; or
 - (C) with whom the Issuer has entered into a Swap Agreement,

where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the aggregate value of the assets of the Issuer, or

- (iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

"Relevant Territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"Swap Agreement" means any agreement, arrangement or understanding that –

- (i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

- (ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in

Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Non-Resident Noteholders-Individuals, such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement dated 7 November 2016 (the "**Subscription Agreement**") among the Issuer, the Borrower and the SC Lowy Financial (HK) Ltd, Merdeka Capital Limited, SIB (Cyprus) Limited and B&N Bank (Public Joint-Stock Company) (the "**Joint Lead Managers**") upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount.

The Joint Lead Managers are entitled to commissions and reimbursement of certain expenses pursuant to the Subscription Agreement. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each of the Issuer and the Borrower represents, warrants and undertakes to the Lead Managers that neither it nor any of its Affiliates (including any person acting on its behalf or on behalf of any of its Affiliates) has offered or sold, or will offer or sell, any Notes in any circumstances which would require the registration of any of the Notes under the Securities Act or the qualification of the Trust Deed as an indenture under the United States Trust Indenture Act of 1939 and, in particular, that (i) neither it nor any its Affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes; (ii) the Issuer, the Borrower and their Affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and (iii) it reasonably believes that there is no substantial U.S. market interest in its debt securities.

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that it has offered and sold the Notes, and will offer and sell the Notes (a) as part of their distribution, at any time; and (b) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that (i) neither it nor any of its Affiliates (including any person acting on behalf of such Lead Manager or any of its Affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes in the United States; and (ii) it and its Affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and (iii) undertakes to the Issuer and the Borrower that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the distribution compliance period a confirmation or notice in substantially the following form:

"The securities covered hereby have not been registered under the United States Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or

to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act/relevant United States securities laws and regulations.

United Kingdom

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that (i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that:

- (a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended, the "**MiFID Regulations**"), including, without limitation, Regulations 7 (Authorisation) and 152 (Restrictions on advertising) thereof, any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the "**Companies Act**"), the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus Regulations and any rules issued by the Central Bank under Section 1363 of the Companies Act; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Russian Federation

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian

Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Hong Kong

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Singapore

Each of the Lead Managers acknowledges that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Lead Managers represents, warrants and undertakes that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**")) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

General

Each of the Lead Managers represents, warrants and undertakes to the Issuer and the Borrower that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus or any related Offering Materials, in all cases, at its own expense.

TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

Each purchaser of a beneficial interest in the Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Notes are purchased it will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Borrower or a person acting on behalf of the Issuer, the Borrower or such an affiliate.
2. It understands that the Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It acknowledges that the Issuer, the Borrower, the Registrar, the Joint Lead Manager(s) and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Issuer, the Borrower and the applicable Joint Lead Manager(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
4. It acknowledges that for the period until and including the 40th day after the commencement of the Offering, it will not make and offer or sale of the Notes to, or for the account or benefit of, a U.S. person within the meaning of Regulation S.
5. It acknowledges that any offer, sale, pledge or other transfer made other than in compliance with the restrictions described in "*Subscription and Sale*", shall not be recognised by Issuer, the Borrower, the Registrar or the Joint Lead Manager(s).
6. It understands that the Global Certificate and any Individual Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THE NOTES REPRESENTED HEREBY AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED SOLD PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

GENERAL INFORMATION

- (1) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Notes is XS1512658805 and the Common Code of the Notes is 151265880. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.
- (2) The Borrower has its registered office at 43/2, Chernyshevsky Street, Kazan 420111, Republic of Tatarstan, Russian Federation.
- (3) The issue of the Notes was approved by a resolution of the board of directors of the Issuer on 4 November 2016. The entry into the Loan Agreement and other documents relating to the issuance of the Notes to which the Borrower is a party were authorised by resolution of the Management Board of the Borrower passed on 14 October 2016. TFB and the Issuer will obtain all necessary consents, approvals and authorisations in the Russian Federation and Ireland in connection with the Loan and the issue and performance of the obligations under the Notes.
- (4) Except as disclosed in "*Capitalisation*" on pages 81-82 and in "*Business – Litigation*" on pages 114-115 of this Prospectus, there has been no significant change in the financial or trading position of TFB or the Group since 30 June 2016 and no material adverse change in the financial position or prospects of TFB or the Group since 31 December 2015.
- (5) Except as disclosed in this Prospectus, there has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since 31 December 2015.
- (6) Save as disclosed in "*Business – Litigation*" on pages 114-115 of this Prospectus, neither TFB, nor the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TFB is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TFB or the Group. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) since its incorporation on 15 March 2007 which may have or have had in the recent past significant effects on its financial position or profitability.
- (7) For so long as the Notes remain outstanding, physical copies of the following documents may be inspected at the offices of the Issuer and the Principal Paying Agent during usual business hours on any weekday (Saturdays and public holidays excepted):
 - (a) a copy of this Prospectus, together with any supplement to this Prospectus;
 - (b) the constitutional documents of the Borrower;
 - (c) the constitutional documents of the Issuer;
 - (d) the IFRS Financial Statements, including the reports thereon;

- (e) the audited financial statements of the Issuer in respect of the financial year ended 2014 and 2015, including the reports thereon;
 - (f) the Loan Agreement;
 - (g) the Account Bank Agreement;
 - (h) the Agency Agreement; and
 - (i) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificates.
- (8) Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.
- (9) The Issuer does not intend to provide any post-listing transaction information regarding the Notes or the Loan.
- (10) TFB was registered with the CBR as an open joint-stock company on 24 August 1994 (licence number 3058) and has been established for an indefinite period of time. TFB was included in the Unified State Register of Legal Entities maintained by the Federal Tax Service of the Russian Federation on 19 July 2002 (under main state registration number 1021600000036).
- (11) The auditors of the Group are Ernst & Young LLC whose business address is: 77 bld. 1, Sadovnicheskaya Embankment, Moscow 115035, Russian Federation. Ernst & Young LLC is a corporate member of the Audit Chamber of Russia. The Annual Financial Statements included in this Prospectus have been audited by Ernst & Young LLC whose reports expressed an unqualified opinion on those statements. The Interim Financial Statements included in this Prospectus have been reviewed by Ernst & Young LLC as appears in the review report included herein.
- (12) The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a trustee in office after such removal and TFB has given its prior written consent. Furthermore, the Trust Deed provides, inter alia, that the Trustee may act and/or rely on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice, certificate or information contains a monetary or other limit on the liability of any of the abovementioned persons in respect thereof.
- (13) Application has been made to list the Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to trading on the Main Securities Market of the Irish Stock Exchange.
- (14) The total fees and expenses in connection with the admission of the Notes to trading on the Irish Stock Exchange are expected to be approximately EUR 7,000.

APPENDIX A – OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

The following information relating to the Russian banking sector and regulation in Russia is for background purposes only. Some of this information has been extracted from publicly available sources and is sourced where it has been so provided. TFB has not independently verified the information that has been extracted from publicly available sources. Although TFB accepts responsibility for extracting and reproducing such information accurately, TFB does not accept responsibility for the accuracy of such information.

Introduction to the Russian Banking Sector

History and Development of the Russian Banking Sector

Prior to the reorganisation in 1987, the Soviet banking system consisted of the former State Bank of the USSR, or Gosbank (the predecessor to the CBR) ("**Gosbank**"), which allocated resources from the state budget according to the prevailing economic plan and whose regional branches held the current accounts of all production and trading entities, and Stroibank of the USSR and Vneshtorgbank of the USSR that primarily serviced payments relating to capital expenditure in connection with construction and infrastructure projects and the foreign trade of Soviet entities, respectively. Gosbank operated a network of "savings branches" (*sberegatelnyie kassy*), the predecessors to Sberbank branches, that offered retail banking services, mainly deposit taking and processing of utility bill payments, throughout the country.

In 1987, the Soviet banking system was partially liberalised. A few specialised banks developed to service specific industries, namely, Agroprombank (Farming Production Bank), Promstroibank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population).

Vnesheconombank of the USSR became the full successor of Vneshtorgbank of the USSR pursuant to Resolution No. 745 of the Council of Ministers of the USSR dated 14 June 1988.

During 1988-1989, many regional commercial banks emerged, primarily in the form of co-operatives or joint stock companies. In 1991, three of the specialised state banks were transformed into joint stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in November 1991, the CBR assumed all of Gosbank's functions in the Russian Federation, and the Russian Government liquidated Gosbank one month later.

During 1991-1998, the Russian banking system experienced rapid growth. The number of commercial banks in the Russian Federation increased from approximately 350 in 1990 to more than 2,500 in 1998. Several large privately-held banking groups were formed, including UNEXIM Bank, Inkombank, Menatep, Rossiyskiy Credit Bank and SBS-Agro. Although most private banks focused on providing banking services to newly privatised companies and governmental bodies, some private banks started to compete with state-owned banks by offering banking products to retail customers.

In 1998, the Russian financial market crisis, which occurred largely due to the Russian Government's default on much of its short-term domestic debt, signified the weakness of the Russian banking sector.

During this crisis many banks were subsequently reorganised, became bankrupt or were placed under the administration of the Agency for the Restructuring of Credit Organisations ("**ARCO**"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under ARCO's administration, and by 31 December 2002, 11 of them completed the financial restructuring process. Other defaulting banks were liquidated. As the Russian banking sector was stabilising during 2000-2004, ARCO's role decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration, and pursuant to Federal Law No. 87-FZ dated 28 July 2004, ARCO itself was liquidated. Pursuant to the Federal Law No. 177-FZ "On Retail Deposit Insurance in the Russian Federation" dated 23 December 2003, as amended (the "**Retail Deposit Insurance Law**"), the assets of ARCO were transferred to the State Corporation Deposit Insurance Agency (the "**DIA**"), which was established in January 2004 under the Retail Deposit Insurance Law.

The 1998 financial crisis revealed a lack of proper regulation of the Russian banking sector and reinforced concerns about the integrity of the banking system. However, during 1999-2003, the Russian banking system gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift from investments in Russian Government securities to corporate loans characterised this recovery.

From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and press speculation and, in some cases, regulatory and liquidity problems, several privately-owned Russian banks, including Guta Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, these banks faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed, or ceased or severely limited their operations.

The CBR adopted several measures in response to the 2004 crisis, including the immediate reduction of the mandatory reserves that banks must deposit with the CBR from 7 per cent. to 3.5 per cent. Accordingly, banks' borrowing costs declined. In addition, the Russian Government adopted legislation pursuant to which the CBR became responsible for payments to retail customers of insolvent Russian banks that did not participate in the retail deposit insurance system before their insolvency. The CBR was also given a power to impose, for a period of one year, a limit on interest rates on retail deposits. In addition, Russian banks became required to disclose certain information concerning the interest rates on retail deposits, their liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

Between 2005 and 2008, the Russian banking sector underwent strong expansion, both in terms of size and scope of branch networks, as well as growth of lending and deposits. Russian banks started actively accessing global Eurobond and equity markets for financing, and the sector attracted M&A interest from foreign players, with banks such as OTP Bank, Raiffeisenbank International, KBC Bank N.V. or Société Générale acquiring local banks to establish and expand their presence in Russia.

In the second half of 2008, the Russian banking sector was severely affected by the onset of the global financial crisis, which resulted in funding and liquidity for Russian banks being severely constrained and their asset quality significantly deteriorating, which had led to insolvency of a number of mid-sized banks (such as Globex Bank, Svyaz-Bank, KIT Finance and, thereafter, International Industrial Bank and AMT-Bank), and substantial financial difficulties for virtually all industry players. In response to the global financial crisis, the Russian Government enacted measures to support the liquidity and solvency of the Russian banking sector including, but not limited to: (i) a RUB 950 billion subordinated loan financing to state-owned and private banks with certain conditions, (ii) a newly established CBR uncollateralised lending facility for select banks, (iii) reduced reserve requirements, (iv) CBR guarantees of certain interbank lending transactions involving state banks (removed on 31 December 2010) and (v) increase of the maximum guarantee for retail customers to up to RUB 700,000 per person per bank.

In accordance with Federal Law No. 175-FZ "On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2014" dated 27 October 2008, as amended (the "**Banking System Stability Law**") and decisions taken in September and October 2008 prior to the effective date of this law, Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. The number of credit organisations subject to such measures increased from 7 (with assets of RUB 576.2 billion, or 2.3 per cent. of the total assets of Russian credit organisations) as of 1 November 2008 to 20 (with assets of RUB 749.2 billion, or 2.7 per cent. of the total assets of Russian credit organisations) as of 1 January 2009, but then, in June 2015, decreased to 17 (with assets of RUB3,514.5 billion, or 4.9 per cent. of the total assets of Russian credit organisations). The Banking System Stability Law envisaged that the DIA would assist distressed banks through: (i) attracting investors for credit organisations which are experiencing financial difficulties; and (ii) liaising with the CBR regarding the provision of financial assistance to such credit organisations.

Thanks to these measures, together with the post crisis economic and financial recovery in 2010, Russia was able to avoid collapses of systemically important financial institutions and the disintegration of its financial system.

In the years that followed, Russia's banking system experienced another period of rapid expansion, this time driven by the rapid development of the retail banking services market, including unsecured lending such as credit cards, cash or POS loans. At the same time, Russian banks have once again tapped the Eurobond market and raised financing in the growing rouble-denominated domestic bond market. There were also several public market equity placements done by Russian banks during that period, including two follow-on placements by VTB of U.S.\$3.3 billion in February 2011 and U.S.\$3.3 billion in May 2013, the U.S.\$718 million initial public offering by NOMOS-Bank in April 2011, as well as the U.S.\$5.2 billion follow-on placement by Sberbank of Russia in September 2012.

In 2013-2016, however, the number of banks operating in the Russian Federation has substantially decreased due to the campaign implemented by the CBR aimed at removing fraudulent failing or undercapitalised financial institutions from the sector and making it more robust, stable and transparent in the event of any potential systemic shocks. In pursuit of this campaign, the CBR revoked banking licenses from a large number of banks, which substantially undermined the sustainability, reliability and predictability of the sector.

Selected Statistical Information

According to the latest available information as at 1 June 2016 the total assets of the Russian banking sector were RUB 80,101.3 billion and the capital of the banking sector was RUB 8,964.6 billion. According to the CBR, as at 1 January 2016, the total assets of the Russian banking sector were RUB 82,999.7 billion as compared to RUB 77,653.0 billion and RUB 57,423.1 billion as at 1 January 2015 and 2014, respectively, with capital of the banking sector of RUB 9,008.6 billion as at 1 January 2016, as compared to RUB 7,928.4 billion and RUB 7,064.3 billion as at 1 January 2015 and 2014, respectively. As at 1 January 2016, the total charter capital of Russian credit organisations was RUB 2,416.3 billion as compared to RUB 1,914.3 billion and RUB 1,533.2 billion as at 1 January 2015 and 2014, respectively. The total charter capital of Russian credit organisations was RUB 2,400.5 billion as at 1 June 2016.

One of the main sources of recent growth of the banks' financial resources was the increasing number of retail deposits. According to the CBR, the aggregate amount of retail deposits in the Russian banking sector increased from RUB 16,957.5 billion as at 1 January 2014 to RUB 18,552.7 billion as at 1 January 2015 and to RUB 23,219.1 billion as at 1 January 2016 with slight subsequent decrease to RUB 22,924.7 billion as at 1 June 2016 (of which deposits in Roubles as at 1 January 2016 and 1 June 2016 amounted to RUB 16,398.2 billion and RUB 16,875.1 billion, respectively, and deposits in foreign currencies as at 1 January 2016 and 1 June 2016 totalled RUB 6,820.9 billion and RUB 6,054.3 billion, respectively). According to the CBR, the aggregate amount of corporate deposits increased from RUB 10,838.3 billion as at 1 January 2014 to RUB 17,007.9 billion as at 1 January 2015 and to RUB 19,018.2 billion as at 1 January 2016 (of which deposits in Roubles amounted to RUB 8,525.2 billion and deposits in foreign currencies totalled RUB 10,496.0 billion) but decreased to RUB 17,635.4 billion as at 1 June 2016 (of which deposits in Roubles amounted to RUB 8,864.1 billion and deposits in foreign currencies totalled RUB 8,771.3 billion).

The remaining sources of growth of the banking sector's funding base are the increasing volumes of loans, deposits and other funds received from the CBR and interbank borrowings, as at 1 January 2016 amounting to RUB 5,363.3 billion and RUB 7,091.0 billion as compared to RUB 9,287.0 billion and RUB 6,594.2 billion respectively, as at 1 January 2015 and RUB 4,439.1 billion and RUB 4,806 billion, respectively as at 1 January 2014. As at 1 June 2016 the volume of loans, deposits and other funds received from the CBR was RUB 2,964.0 billion and the volume of loans, deposits and other funds received from the interbank borrowings was RUB 7,193.3 billion.

As at 1 June 2016 the total amount of loans and other funding in Roubles provided by Russian banks in Roubles increased as compared to 1 January 2016 and amounted to 37,292.9 billion (of which loans in the amount of RUB 10,352.8 billion were provided to retail customers, loans and other funding in the amount of RUB 20,423.9 billion were provided to corporate customers, excluding banks and other financial institutions, and loans and other funding in the amount of RUB 901.8 billion were provided to state financial agencies and non-budgetary funds). As at 1 January 2016, the total amount of loans and other funding in Roubles provided by Russian banks in Roubles increased to RUB 37,091.8 billion (of which loans in the amount of RUB 10,395.8 billion were provided to retail customers, loans and other funding in the amount of RUB 20,061.6 billion were provided to corporate customers, excluding banks and other financial institutions, and loans and other funding in the amount of RUB 1,135.5 billion were provided to state financial agencies and non-budgetary funds) as compared to RUB 36,664.1 billion as at 1 January 2015, RUB 31,300.2

billion as at 1 January 2014 and RUB 26,657.1 billion as at 1 January 2013. As at 1 June 2016 the total amount of loans and other funding provided by Russian banks in foreign currencies totalled RUB 17,962.6 billion (of which loans in the amount of RUB 215.7 billion were provided to retail customers, loans and other funding in the amount of RUB 10,950.4 billion were provided to corporate customers, excluding banks and other financial institutions, and no loans and other funding were provided to state financial agencies and non-budgetary funds). The total amount of loans and other funding provided by Russian banks in foreign currencies amounted to RUB 20,062.8 billion as at 1 January 2016 (of which loans in the amount of RUB 288.5 billion were provided to retail customers, loans and other funding in the amount of RUB 13,239.3 billion were provided to corporate customers, excluding banks and other financial institutions, and no loans and other funding were provided to state financial agencies and non-budgetary funds) as compared to RUB 15,135.3 billion as at 1 January 2015, RUB 9,117.6 billion as at 1 January 2014 and RUB 7,203 billion as at 1 January 2013.

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR and credit organisations. The latter consist of banks, which provide a wide range of banking services, and non-bank credit organisations, which provide only limited banking services, such as maintaining accounts and making payments. According to the CBR, as of 1 July 2016, there were 680 operating credit organisations in the Russian Federation. Poor corporate governance, inadequate risk management, lack of transparency, absence of developed regional networks and weak management remain main characteristics of some Russian banks, particularly smaller ones.

State-Owned or State-Controlled Banks

State-owned banks continue to play a leading role in the Russian banking sector. Several state-owned banks focus on the implementation of Russian Government programmes, such as Russian Agricultural Bank in the agricultural sector and Roseximbank in respect of import-export operations. Others have provided loans in politically-related contexts, including Sberbank (the largest bank in Russia), VEB and VTB.

Privately-Owned Russian banks

Privately-owned banks are an essential part of the developing Russian banking market. They focus on a wide variety of businesses including corporate and retail lending and investment banking. The large privately-owned banks among the top 30 Russian banks by total assets include Otkritie Bank Financial Corporation, Alfa-Bank, Promsvyazbank, Credit Bank of Moscow, B&N Bank and Russian Standard Bank. Several privately-owned banks such as Bank Saint-Petersburg, Vozrozhdenie Bank have publicly traded shares.

Foreign Owned Banks

The presence of foreign owned banks in the Russian market was limited until 2002 in order to protect the newly formed Russian banks. However, given that foreign banks may not directly conduct business in the Russian Federation, many major foreign banks have established subsidiaries in the country.

Currently, foreign owned banks may need to comply with certain additional requirements that may be established by the CBR. The maximum aggregate participation limit of foreign

shareholders in the Russian banking system may be determined by a federal law proposed by the Russian Government in conjunction with the CBR, however no such law has been enacted.

On 14 December 2015, Federal Law No. 372-FZ "On the amendments to Articles 16 and 18 of the Banking Law" limiting foreign participation in the Russian banking system was adopted. This law is aimed at ensuring Russia's compliance with the obligations regarding access to banking services imposed on it following its accession to the World Trade Organisation (the "**WTO**"). The amount of foreign participation in the Russian banking system is calculated by the CBR as at 1 January of each year. The following types of investments are not included in this calculation: (i) investments made by non-residents controlled by residents and investments made by Russian subsidiaries of foreign banks; (ii) investments made before 1 January 2007; (iii) investments into the banks which were privatised after 22 August 2012 and (iv) investments comprising 51 per cent. and more of the charter capital, made after 1 January 2007 and being in the investor's ownership for 12 and more years, unless expressly included in the calculation by the CBR. Upon foreign participation in the Russian banking system reaching the 50 per cent. limit, the CBR must implement the following measures: reject registration or licensing of banks with foreign participation, prohibit the increase in the charter capital of the bank at the expense of a non-resident or prohibit the sale of shares in the relevant bank to non-residents, should these actions lead to the aforementioned limit being exceeded.

According to the CBR, as at 1 June 2016, 99 credit organisations controlled by foreign groups holding more than 50 per cent. of their shares were operating in the Russian Federation, of which several ranked in the top 30 of all banks operating in the country by value of their assets. Of these 99 credit organisations, 67 were 100 per cent. owned by foreign groups.

Although certain foreign owned banks focus primarily on cash and settlement services to non-residents and interbank operations, many foreign owned banks, such as UniCredit Bank (formerly International Moscow Bank), Raiffeisenbank, Citibank, Rosbank and Bank DeltaCredit, offer the full range of services to their Russian customers, including retail deposits and loans.

Legislative Framework for the Russian Banking Sector

The Banking Law

The Banking Law is the main law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform, and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Association of Russian Banks, a non-profit self regulatory organisation established pursuant to the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks with various governmental bodies, including the Russian parliament, the Russian Government and the CBR. According to its website, as of 8 August 2016, the Association of Russian Banks consisted of 521 members, including 349 credit organisations and 134 associated members, including 104 credit organisations.

The Banking Law defines the following services as "banking operations" that require an appropriate licence from the CBR:

- taking deposits from individuals and legal entities (both demand and fixed-term deposits);
- investing deposited funds as principal;
- opening and maintaining bank accounts for individuals and legal entities;
- performing money transfers in accordance with the instructions from individuals and legal entities, including correspondent banks, from and to their bank accounts;
- services involving handling of cash, cheques, promissory notes, and payment documents, and other cash services to individuals and legal entities;
- purchase and sale of foreign currency (both cash and non-cash);
- taking deposits in precious metals and investing them;
- issuing bank guarantees; and
- performing money transfers, including electronic transfers, without opening bank accounts (excluding money transfers by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only, *inter alia*, after it has been registered for two years or earlier, if it meets certain capital and disclosure requirements set out for newly established banks.

Other Activities

In addition to banking operations, credit organisations may:

- guarantee monetary obligations of third parties;
- purchase receivables from third parties;
- engage in the fiduciary management (which differs from the concept of trust under English law) of monetary funds and other property for individuals and legal entities;
- engage in operations with precious metals and stones (in accordance with Federal Law No. 41-FZ "On Precious Metals and Precious Stones" dated 26 March 1998, as amended, and other legislation);
- rent out special premises and safe deposit boxes to individuals and legal entities;
- engage in leasing operations;
- provide consultancy and informational services; and
- enter into any other transactions in accordance with Russian law.

Under the Banking Law, a credit organisation cannot engage in manufacturing, commodities trading (excluding precious metals) or insurance activities. Article 15.26 of the Administrative Offences Code of the Russian Federation dated 30 December 2001, as amended, envisages a fine in an amount of between RUB 40,000 and RUB 50,000 for non-compliance with this prohibition.

The Securities Market Law

A banking licence does not authorise a credit organisation to act as a securities broker, dealer or forex dealer, registrar, securities manager or to provide custody services (other than acting as a paying agent). In order to perform these functions, according to Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Securities Market Law**") a credit organisation must obtain a licence from the CBR. The operations of Russian banks in the securities market are subject to Russian securities laws and regulations adopted by the CBR or its predecessors that govern the activities of brokers, dealers, forex dealers, securities managers, registrars and securities custodians, and the relations between professional market participants and investors. CBR also oversees the compliance of all professional market participants, including banks, with the Russian securities laws and regulations.

On 23 July 2013, a set of amendments was introduced to legislation relating to the creation of a financial "megaregulator" in Russia. According to these amendments, the most significant of which came into force on 1 September 2013, the Federal Service for Financial Markets (the "**FSFM**") was integrated into the CBR and all of the FSFM's functions, including registration of securities issues, ensuring the disclosure of information on securities markets and control and supervision of securities issuers and professional securities market participants, were transferred to the CBR.

In December 2013, Federal Law No.379-FZ "On Amendments to Certain Legislative Acts of the Russian Federation" ("**Federal Law 379-FZ**") was adopted. Among other things, the Federal Law 379-FZ introduced a number of further changes to the Securities Market Law aimed at developing the regulation of the issuance of asset backed securities. In addition to other changes, the amendments introduced the concept of a domestic special purpose entity, namely "special finance entity" for securitisation transactions and a "special project finance entity", for long term investment (primarily infrastructure) projects. The Federal Law 379-FZ also sets out the guidelines for their creation and operation, including provisions on the type of entity which may be registered as a domestic special purpose entity, the requirements with respect to their management, and the restrictions on their corporate objects and powers.

In addition, further to the amendments introduced by Federal Law 379-FZ, an issuer of Russian domestic securities is entitled to appoint a noteholders' representative. From 1 July 2016, such appointment became mandatory in the following circumstances:

- a public offering of notes or private offering of notes among more than 500 investors (not taking into account qualified investors);
- the admission of notes to trading on a Russian stock exchange except for notes designated for qualified investors.

A noteholders' representative will represent the noteholders before the issuer and third parties and will hold the benefit of security for the notes in the interests of the noteholders.

Most of the amendments introduced by the Federal Law 379-FZ came into force on 1 July 2014.

The National Payment System Law

For the purposes of development and modernisation of the Russian banking sector and financial market, in light of establishment of International Financial Centre in Russia Federal Law No. 161-FZ "On the National Payment System" dated 27 June 2011 (the "**National Payment System Law**") was adopted. The National Payment System Law generally came into force on 29 September 2011 with some provisions entering into force later in 2012.

The National Payment System Law sets out legal and administrative basis of the national payment system, regulates the procedure of rendering payment services, including the performance of the transfer of monetary resources, the employment of the electronic means of payment, the activity of the participants of the national payment system, as well as determines the requirements of the organisation and functioning of payment systems, the procedure of the supervision and observation in the national payment system.

The National Payment System Law provides, *inter alia*, that a bank may act as an operator of the transfer of monetary funds, including operator of the electronic monetary resources and an operator of the payment system.

The National Payment System Law envisages that the CBR performs the function of supervision over the functioning of the national payment system. To that end, the CBR is vested, among other things, with the following powers with respect to the participants of payment systems and/or other entities falling under the CBR's supervision: (i) to inspect the documents and information relating to such entities; (ii) conduct scheduled and extraordinary audits; (iii) impose sanctions or other actions.

The Retail Deposit Insurance Law

Federal Law No. 177-FZ "On the Insurance of Retail Deposits made at the Banks of the Russian Federation" dated 23 December 2003, as amended (the "**Retail Deposit Insurance Law**") introduced a mandatory retail deposit insurance scheme for Russian banks that offer retail deposit services pursuant to a CBR licence. The Retail Deposit Insurance Law prescribed the requirements for admission to the deposit insurance scheme, and compliance with these requirements was verified by the CBR on a case-by-case basis.

According to the Deposit Insurance Agency, as at 8 August 2016, 822 banks are participants to the deposit insurance scheme. A bank that does not participate in the deposit insurance scheme is not permitted to accept retail deposits or open accounts for individuals.

The Retail Deposit Insurance Law guarantees each customer's deposit for up to RUB 1,400,000 per bank. Insurance proceeds are payable from the retail Deposit Insurance Fund into which participating banks must make quarterly contributions. An insurance payment from the Deposit Insurance Fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance scheme is assessed based on the quarterly average of daily balances of its retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but

not for more than two quarters in any 18-month period. When the size of the insurance fund exceeds 5 per cent. of all Russian banks' combined retail deposits, all subsequent contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks' combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of the combined retail deposits. Starting from 1 July 2015 the banks satisfying certain conditions are obliged to make additional contributions established by the Deposit Insurance Agency. If a bank in a particular quarter has entered into any agreement with deposit rate exceeding the basic level of profitability by 2 to 3 per cent. such bank is subject to additional contribution. And the banks providing deposits with rates exceeding the basic level of profitability by more than 3 per cent. must pay higher additional contributions. The basic level of profitability will be established by the CBR every month by determination of the average rate calculated on the basis of the highest deposit rates offered to unlimited range of depositors by the banks holding, in aggregate, two thirds of retail deposits in the Russian Federation.

The Retail Deposit Insurance Law provides for the establishment of a new regulator, the DIA, which, among other things, collects fund contributions, manages the fund, calculates insurance premiums and monitors insurance payments. The DIA maintains a register of all banks that hold a retail banking licence.

The Rescue Measures Law

Federal Law No. 173-FZ dated 13 October 2008 "On Supplementary Measures to Support the Financial System of the Russian Federation", as amended (the "**Rescue Measures Law**") came into effect on 14 October 2008.

Under Article 4 of the Rescue Measures Law, VEB is to receive deposits in the amount of up to RUB 410 billion in the aggregate from the National Wealth Fund, which VEB would use to provide unsecured subordinated loans to Russian banks. The availability period for such loans expired on 31 December 2010.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the "Procedure for implementation by Vnesheconombank of measures set out in Articles 4 and 6 of the Rescue Measures Law" which describes the measures implemented to provide additional liquidity to Russian banks through VEB (the "**Procedure**").

The Procedure lists certain eligibility criteria that a Russian bank must meet to qualify for VEB financing, including a minimum credit rating of B- from Fitch or S&P's and B3 from Moody's, absence of outstanding tax liabilities at the federal or regional level and absence of CBR sanctions against the bank and some other criteria.

Chapter III of the Procedure sets out the key terms of Vnesheconombank loans, which include, *inter alia*, the requirement to appoint VEB representatives to the management bodies of the borrower upon VEB request.

The Anti-Money Laundering Law

The Anti-Money Laundering Law was adopted to comply with the requirements of the FATF. Credit organisations must comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and

procedures, customer identification, control over customer operations and reporting of suspicious activities.

Under the Anti-Money Laundering Law, one of a bank's main obligations is the "control function", which involves identification of the bank's clients, gathering information with respect to client operations and reporting of certain operations to the Federal Service for Financial Monitoring of the Russian Federation ("**Rosfinmonitoring**"), the Russian Federation's anti-money laundering authority. The Anti-Money Laundering Law requires that banks exercise the "control function" over any operations in the amount of RUB 600,000 (RUB 3,000,000 for operations with real estate) or more (or its equivalent in foreign currencies) when such operations involve:

- cash transactions;
- transactions where one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering;
- making certain bank deposits or money transfers that do not identify beneficiaries, including deposits to or debiting money from the account of legal entities with less than three months existence and performing such operations in relation to the account for the first time since its opening; and
- similar transactions with moveable property involving precious stones, precious metals and other property.

In addition, banks must exercise the "control function" over any operation involving an individual or organisation that is known to participate in extremist or terrorist activities, as well as any legal entity that such organisations control or the agents of such organisations.

If bank officers suspect that an operation is conducted in order to legalise any funds received from illegal activities or to finance terrorist activities, their banks must report such operations to Rosfinmonitoring, whether or not they qualify as controlled operations. Russian banks have the right not to inform customers that transactions are being reported to Rosfinmonitoring.

In June 2013, Federal Law No. 134-FZ "On Amending Certain Legislative Acts of the Russian Federation with regard to Combating Illegal Financial Operations" was adopted. This law introduced certain amendments to the Anti-Money Laundering Law. In particular, it amended the procedure of identification of a client, its representatives and its beneficiary owner; introduced banks' obligation to report to Rosfinmonitoring at its request about clients' operations and their beneficial owners. Pursuant to the amendments, the clients are obliged to provide the required information to the banks. If a client refuses to enter into a transaction because of the legal requirement to provide information, the bank is obliged to report this to Rosfinmonitoring.

According to these amendments, the banks are under an obligation to block (freeze) the property of terrorists and extremists, i. e. persons who obtained such status according to the list of Rosfinmonitoring published on its official website, or to block (freeze) the property of persons not included on this list, but with respect to whom Rosfinmonitoring has issued a decision to freeze their property because they have reasonable grounds to believe such

persons to be involved in terrorism in spite of the lack of grounds for including them on the list of Rosfinmonitoring.

Measures to Support the Liquidity and Solvency of Russian Banks and Companies since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of financing to Russian companies, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures are set out below:

- The Russian Government through the CBR and VEB may provide up to RUB 910 billion in subordinated loans to state- and private-owned banks under certain conditions. The RUB 910 billion state contribution to banking sector capital in the form of long-term subordinated loans with a term of at least five years is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. Sberbank, VTB and Russian Agricultural Bank received RUB 500 billion, RUB 200 billion and RUB 25 billion, respectively, as part of this initiative. Part of the remaining RUB 185 billion has been distributed among privately-owned Russian banks subject to certain conditions;
- On the basis of special resolutions of the Russian Government the funds repaid by the banks as borrowers under the subordinated loan agreements may be used for purchasing preferred shares of such banks;
- From 14 October 2008 to 31 December 2010, the CBR has been granted the authority to guarantee interbank lending transactions for state-owned banks, and, in an effort to encourage interbank lending in the short term, to reimburse some of the losses and expenses of certain banks incurred during interbank lending operations with Russian banks whose licenses have been revoked;
- In October 2008, the CBR temporarily decreased the reserve requirements for banks to 0.5 per cent. for all types of financial obligations (prior to the decrease, the reserve requirements for banks were 4.5 per cent. for financial obligations to non-resident banks, 1.5 per cent. for financial obligations to individuals and 2.0 per cent. for all other financial obligations);
- The Russian Government has increased the insurance coverage for retail deposits to RUB 1,400,000;
- VEB made available foreign currency denominated loans in the aggregate amount of up to U.S.\$50 billion to Russian companies, including credit organisations, to allow them to refinance loans obtained prior to 25 September 2008 from non-Russian sources. This refinancing option was available until 31 December 2009;
- The number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations;

- The Russian Government has increased the range of financial instruments in which funds from the National Welfare Fund (established in 2008 using oil revenues with a view to partially fund pensions of Russian citizens and to cover shortfalls in other contributions from the federal budget to federal pension funds) may be deposited with VEB to support the Russian financial markets;
- The Russian Government has pledged 500 billion to stabilise the financial markets, out of which VEB, a state-owned bank, has received 250 billion to implement measures to support the Russian financial markets. In November 2008, VEB received a contribution of RUB 75 billion to its charter capital to help stabilise the repo market. The remaining RUB 175 billion was deposited with VEB and partially used to support the Russian debt and equity markets; and
- The DIA added 27 Russian banks to a short list of banks which received an aggregate of RUB 830 billion as additional support from the state in the form of Federal loan bonds (OFZ) in the amount equal to 25 per cent. of their capital (own funds) transferred to such banks on a *pro rata* basis.

Role of the CBR

The CBR was established on 13 July 1990 as a successor to Gosbank. After the collapse of the USSR in 1991, the CBR took over Gosbank's operational facilities and resources, including Gosbank's subsidiaries and branches.

The CBR operates under the Federal Law No. 86-FZ "On the Central Bank of the Russian Federation" dated 10 July 2002, as amended (the "**CBR Law**"). According to the CBR Law, the Russian Government is not liable for CBR's obligations, and the CBR is not liable for the obligations of the Russian Government, unless the liability of the Russian Government for CBR's obligations or the liability of the CBR for the obligations of the Russian Government has been assumed by the Russian Government or the CBR, respectively, or the Russian Government is liable for CBR's obligations or the CBR is liable for the obligations of the Russian Government under Russian law. The assets of the CBR are owned by the Russian Federal Government.

Management of the CBR

The CBR is a legal entity and is operationally independent from the Russian Government. The CBR has a head office in Moscow and regional branches in the constituent subjects of the Russian Federation, as well as local branches. Where constituent subjects of the Russian Federation are republics, the CBR's branch in a republic is called a National Bank. The management of the CBR consists of the Chairman of the CBR, the Board of Directors and the National Banking Council.

The Russian President nominates the Chairman of the CBR, whom the State Duma, one of the chambers of the Russian Parliament, then confirms for a five-year term in office. The Chairman of the CBR may be replaced by the President and the State Duma pursuant to the same procedure. The Chairman of the CBR has the right to participate in meetings of the Russian Government.

The Board of Directors of the CBR performs general management functions, such as allocating the CBR's annual budget, determining the CBR's organisational structure and

formulating internal policies and procedures. It also performs certain external regulatory functions, such as:

- establishing rules governing the conduct of commercial banking operations;
- establishing accounting rules for commercial Russian banks;
- determining mandatory economic ratios and provisioning policies for Russian banks; and
- determining pricing policies for the CBR's open market operations.

The Board of Directors of the CBR consists of the Chairman of the CBR and fourteen members. The Chairman of the CBR nominates, with the approval of the Russian President, each director, whom the State Duma then approves for a five-year term in office.

The National Banking Council performs certain policy-making functions, such as determining the CBR's maximum capital expenditures, appointing the CBR's auditors and approving the CBR's accounting procedures, and allocating CBR's expenses. Of the twelve members of the National Banking Council, the Council of Federation, the upper chamber of the Russian Parliament, appoints two from among its members, the State Duma appoints three from among its members, and the President and the Russian Government each appoints three members. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

Functions of the CBR

Pursuant to the CBR Law, the Banking Law and the Currency Law, the CBR has the authority to issue and implement binding regulations governing banking and currency operations. Under current legislation, the CBR performs the following main functions:

Monetary policy

The CBR determines monetary policy in the Russian Federation. The CBR has the authority to extend credit to banks in the form of short-term loans issued at a discount (refinancing) rate set by the CBR. The CBR also establishes reserve requirements, capital adequacy requirements and mandatory economic ratios. The CBR also conducts currency interventions, issues its own bonds, which it can offer only to credit organisations, and trades in the Russian Government securities.

Banking regulation

The CBR has the authority to issue, suspend or revoke banking licences and register new securities issuances by Russian banks. The CBR also oversees banks' compliance with economic ratios and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations of banks that are facing insolvency, regulates the acquisition or trust management of significant interests in banks (for interests between 1 per cent. and 10 per cent., the CBR requires notification; in respect of stakes that are equal or exceed 10 per cent., the CBR must give its prior or past approval of the transaction) and assesses the financial standing of banks' founders.

The CBR is entitled to examine the activities of credit organisations incorporated outside Russia which are a part of banking groups and holdings. To that end and subject to receiving a prior written consent, the CBR may obtain access to the premises or information of a bank which is a member of a banking group in which a parent organisation is a non-resident company.

In accordance with the established procedure the CBR also issues permits in relation to the creation of credit organisations with foreign investments and accredits representative offices of foreign credit organisations.

Transactions with banks

The CBR has the authority to:

- extend loans to banks at a discount (refinancing) rate;
- maintain Rouble-denominated correspondent accounts of other banks;
- provide cash and settlement services and issue guarantees to banks;
- purchase and sell Russian state securities, its own bonds, certificates of deposit, precious metals and stones;
- purchase and sell foreign currency and foreign currency-denominated payment instruments issued by Russian and foreign banks; and
- register securities issued by banks.

Except under the limited circumstances set forth in the CBR Law, the CBR may not participate in the charter capital of banks and other commercial entities.

Issue of currency and regulation of its circulation

The CBR has the exclusive authority to issue currency in the Russian Federation and to regulate its circulation. The CBR arranges for the printing of banknotes and the engraving of coins, establishes rules for their transportation and storage, and regulates over-the-counter cash operations.

Foreign currency operations

The CBR has substantial power to regulate foreign currency operations in the Russian Federation and foreign currency operations conducted by Russian residents abroad. It also administers the Russian Federation's international reserves, and establishes rules governing Rouble- and foreign currency-denominated bank accounts in the Russian Federation of both residents and non-residents.

Domestic government debt service and federal budget administration

The CBR acts as placement agent for, and services domestic sovereign debt issued by, the Ministry of Finance of the Russian Federation.

The CBR also administers federal budget accounts. However, under the CBR Law, the CBR cannot, unless the federal budget expressly authorises it to do so, extend loans to the Russian Government to finance Russian Government budget deficits.

Role of the Federal Antimonopoly Service

Anti-monopoly activity in the Russian Federation is governed by the Federal Law No. 135-FZ "On the Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"). It is aimed at preventing and restraining monopoly activities and unfair competition.

Licensing

A credit organisation must hold a CBR licence to conduct "banking activities", as defined in the Banking Law. Licence applicants must submit to the CBR a feasibility study, detailed information on their senior management and compliance with eligibility requirements and documents certifying the source of funds contributed to their charter capital.

The credit organisation must be incorporated in the Russian Federation. Under the Banking Law, credit organisations may be incorporated as joint stock companies or limited liability companies.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- application materials do not comply with Russian law;
- the financial standing of the credit organisation's founders is unsatisfactory;
- candidates for a position of a chief executive officer or chief accountant or deputy chief accountant of the credit organisation fail to meet eligibility requirements; or
- a candidate for a position of a member of the credit organisation's board of directors has a business reputation which does not meet eligibility requirements.

The CBR issues licences to Russian credit organisations to perform the following professional functions on the Russian securities markets (subject to certain limitations regarding combining the below functions): (1) broker, (2) dealer, (3) forex dealer, (4) securities manager, (5) custodian and (6) registrar. The licensing procedures are established in CBR Regulation No. 481-P dated 27 July 2015, as amended.

Capital Requirements

The basic concept underlying Russian capital requirements is the amount of the capital base (own funds) of a credit organisation, which is defined as the sum of the "core capital" and "supplemental capital" of the credit organisation minus certain obligations as determined by the CBR.

The core capital and the supplemental capital are defined by way of an exhaustive list of different types of debt and equity that qualify for treatment as the main and additional capital, as applicable. For example, the amount of the charter capital of the credit organisation is included in the main capital of the credit organisation and constitutes a part of the credit institution's capital base.

On 28 December 2012, the CBR adopted a regulation "On the Determination of Capital Adequacy Ratio of Credit Institutions (Basel III)" No. 395-P ("**Regulation No. 395-P**") which establishes the procedure for determination of the capital adequacy ratio in accordance with international standards and principles with respect to composition and assessment of sufficiency of bank regulatory capital. Regulation 395-P entered into force on 1 March 2013 (with certain provisions effective from 1 January 2014 and onwards). For monitoring purposes, the new rules generally became effective from 1 March 2013, and reporting pursuant to Regulation 395-P was required from 1 April 2013. Pursuant to amendments introduced to Regulation 395-P by CBR Directive No. 3096-U dated 25 October 2013, which came into effect on 1 January 2014, Regulation 395-P has become effective for prudential purposes from 1 January 2014.

Capital base of a credit organisation must not be less than RUB 300 million with an exception for banks whose capital base constituted less than RUB 180 million as at 1 January 2007. Each bank whose capital base was below RUB 180 million as at 1 January 2007, or a bank established after 1 January 2007, is required to increase its capital base to (i) a minimum of RUB 90 million by 1 January 2010; (ii) a minimum of RUB 180 million by 1 January 2012; and (iii) to a minimum of RUB 300 million by 1 January 2015. Failure to comply with this requirement will result in revocation of a bank's banking licence. A minimum capital base requirement for a bank seeking a general licence with a right to attract deposits of individuals is not less than RUB 900 million.

The Banking Law establishes requirements as to minimum charter capital for banks. Under the Banking Law, the minimum charter capital both for newly-established and foreign owned banks is equivalent to RUB 300 million. A bank whose capital base falls below its nominal charter capital must increase its capital base (or, if impossible, reduce its nominal charter capital) accordingly. The CBR Directive No. 1260-U dated 24 March 2003, as amended, establishes the procedures for such adjustment.

The capital base required for a newly established bank seeking to obtain a general banking licence with a right to attract deposits of individuals should be not less than RUB 3.6 billion provided that it complies with the disclosure requirements established by the CBR.

Reserve Requirements

Under the CBR Law, the CBR's Board of Directors may establish reserve requirements for banks. Reserve requirements must not exceed 20 per cent. of the bank's liabilities and may vary for different types of banks.

Banks are currently required to post mandatory reserves with the CBR to be held in non-interest bearing accounts. The CBR unified reserve requirements for all types of financial liabilities set out above at the level of 4.25 per cent, starting from 1 March 2013. However, with effect from 1 July 2016 the CBR raised the applicable thresholds to 5.25 per cent. in respect of the foreign currency liabilities to individuals and to 6.25 per cent. in respect of non-residents and other foreign currency liabilities.

Russian banks are required to calculate the exact amount of their mandatory reserves in accordance with CBR Regulation No. 507-P dated 1 December 2015 and Regulation No.4038-U dated 10 June 2016, as amended (the "**Reserves Regulations**"). The Reserves Regulations do not require creation of reserves for certain long-term borrowings but require posting of reserves with the CBR in respect of short-term obligations to non-resident banks.

The Reserves Regulations also require banks to report the calculation of reserves to the CBR and its regional branches promptly after the end of each calendar month, as well as to post additional reserves if necessary.

The CBR may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account with the CBR. The CBR and its regional branches may also conduct unscheduled audits to assess a bank's compliance with the reserve requirements.

Amounts deposited with the CBR pursuant to reserve requirements are not subject to seizure for the satisfaction of judgments against the bank. In the event of the revocation of the bank's licence, mandatory reserves are included in the pool of assets available for distribution to the bank's creditors according to the priority ranking established by law.

Loss Provisions

The CBR regulates the creation of provisions for bank loan losses. CBR Regulation No. 254-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 26 March 2004, as amended ("**Regulation No. 254-P**") requires banks to adopt procedures for calculating and posting provisions for loan losses and to monitor the financial position of borrowers.

Regulation No. 254-P requires credit organisations to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

On a standalone basis (with respect to the particular loan):

Category	Status of Loan	Provision
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non-standard loans, moderate credit risk	1 per cent.-20 per cent.
Category III	Doubtful loans, considerable credit risk	21 per cent.-50 per cent.
Category IV	Problem loans, high credit risk	51 per cent.-100 per cent.
Category V	Bad loans	100 per cent.

On the aggregate basis (with respect to the portfolio of similar loans):

Category	Status of Loan	Provision
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non-standard loans, moderate credit risk	Up to 3 per cent.
Category III	Doubtful loans, considerable credit risk	More than 3 per cent. – up to 20 per cent.
Category IV	Problem loans, high credit risk	More than 20 per cent. – up to 50 per cent.
Category V	Bad loans	More than 50 per cent.

Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower's financial position and debt servicing history. The credit organisation must evaluate at its discretion the borrower's financial position and debt

servicing history as good, average or bad. Regulation No. 254-P sets forth tests to be applied towards a particular loan and borrower.

Regulation No. 254-P is applied subject to the order of the CBR No. 2459-U "On Peculiarities of the Credit Risk Assessment in relation to Single Loans, Loan and Similar Indebtedness" dated 3 June 2010.

Regulation No. 254-P expands the definition of a "loan" to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment and others. Under Regulation 254-P, credit organisations do not need to make provisions for Category I loans (standard loans). Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality. Finally, Regulation No. 254-P provides for a simplified procedure in respect of writing off bad debts, especially minor debts, as compared to former procedures.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks' compliance with requirements relating to provisions for loan losses and verify the calculation of such provisions.

The CBR also regulates the creation of provisions for possible losses other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities and other transactions. CBR Regulation No. 283-P dated 20 March 2006, as amended, requires banks to classify such activities into the following five risk categories and to make provisions in the corresponding amount at their discretion:

- no real or potential possibility of losses (0 per cent.);
- moderate potential possibility of losses (1-20 per cent.);
- serious potential or moderate real possibility of losses (21-50 per cent.);
- simultaneous potential and moderate real possibility of losses or material real possibility of losses (51-100 per cent.); and
- complete loss (100 per cent.).

Banks must report to the CBR the amount of new non-loan provisions, as a general rule, within eight business days after the end of each reporting month. The CBR and its regional branches monitor banks' compliance with these rules.

Mandatory Economic Ratios

The CBR's Instruction No. 139-I "On Banks' Mandatory Economic Ratios" dated 3 December 2012 (the "**Instruction 139-I**"), establishes mandatory economic ratios for banks.

The following table sets forth mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by the applicable Russian laws and CBR regulations.

As part of the implementation of Basel III capital requirements in Russia, in October 2013, the Mandatory Economic Ratios Instruction was amended by CBR Regulation No. 3097-U dated 25 October 2013 ("**Regulation 139-I Amendments**") to introduce, among other things, new capital adequacy ratios and establish the basis of their calculation and minimum values in conjunction with the application of Regulation 395-P for prudential purposes. In accordance with the Mandatory Economic Ratios Instruction, as amended by the Regulation 139-I Amendments, capital adequacy ratios include (i) base capital adequacy ratio (N1.1) ("**N1.1 Ratio**"), (ii) a core capital adequacy ratio (N1.2) ("**N1.2 Ratio**") and (iii) an own funds adequacy ratio (N1.0) ("**N1.0 Ratio**"). The new rules on mandatory economic ratios calculation introduced by Regulation 139-I Amendments apply for prudential purposes with effect from 1 January 2014 (with limited exceptions).

As described below, (*see – "-Basel Implementation in Russia"*) a bank's capital base consists of main capital and additional capital. Main capital includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Additional capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debts.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
N1.1 Ratio	This ratio is formulated as a ratio of a bank's base capital (calculated in accordance with Regulation 395-P (as amended, supplemented or replaced from time to time)) to: the aggregate of (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) credit valuation adjustment, (v) operational risk and (vi) market risk.	Minimum 4.5 per cent.
N1.2 Ratio	This ratio is formulated as the ratio of a bank's core capital (calculated in accordance with Regulation No. 395-P) to: the aggregate of (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) credit valuation adjustment, (v) operational risk and (vi) market risk.	Minimum 6.0 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
N1.0 Ratio	This ratio is formulated as a ratio of a bank's own funds (i.e. core capital and supplemental capital together, calculated in accordance with the Regulation No. 395-P) to: the aggregate of (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) credit valuation adjustment, (v) operational risk and (vi) market risk.	Minimum 8.0 per cent.
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk within one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50 per cent.
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 per cent.
Maximum exposure to a single borrower or a group	This ratio is intended to limit the credit exposure of a bank	Maximum 25 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
of affiliated borrowers (N6)	<p>to one borrower or a group of affiliated borrowers (as defined in the applicable regulations).</p> <p>It is defined as the ratio of the aggregate amount of the bank's various credit claims against a borrower (or a group of affiliated borrowers) to its capital base.</p>	
Maximum amount of major credit risks (N7)	<p>This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5 per cent. of the bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.</p>	Maximum 800 per cent.
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	<p>This ratio is intended to limit a bank's credit exposure to the bank's shareholders/participants. It is defined as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base.</p>	Maximum 50 per cent.
Aggregate amount of exposure to the bank's insiders (N10.1)	<p>This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing bank's credit decisions). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.</p>	Maximum 3 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.

With effect from 1 January 2016, the Instruction 139-I was amended to provide for capital adequacy surplus, anticyclic surplus and, with respect to systemically important banks (as determined in accordance with the CBR Regulation No. 3737 dated 22 July 2015 "On the Methods of Determination of Systemically Important Banks"), systemic important surplus. The relevant surpluses are intended to increase the banks' capital adequacy and are subject to gradual increase. Systemically important banks are subject to a surplus minimum of 0.15 per cent. of the risk-weighted assets, which, with effect from 1 January 2017, will be increased to 0.35 per cent. of the risk-weighted assets and will be subject to further gradual increase in 2018 and 2019.

In addition, systemically important banks are required to maintain the short term liquidity ratio at 70 per cent. as determined in accordance with the CBR Regulation No. 421-P dated 30 May 2014 "On the Procedure of Calculation of Short-term Liquidity Coverage Ratio ("Basel III")" (**"Regulation 421-P"**). This ratio will be subject to further gradual increase up to 2019 when it will amount to 100 per cent.

In July 2013, Federal Law No. 146-FZ "On Amending Certain Legislative Acts of the Russian Federation", was adopted. Among other things, the amendments introduced a definition of a group of affiliated borrowers to the CBR Law. According to the amendments, a group of borrowers (individuals or legal entities) will constitute a group of affiliated borrowers when (i) one borrower controls other borrowers; (ii) all borrowers are under the control of a third party which is not a borrower; (iii) the borrowers are related in a way that a deterioration in the financial condition of one borrower may cause non-performance or improper performance of the obligations of another borrower (or borrowers), in particular in a scenario when one person directly or indirectly provided a loan to another person using previously borrowed funds; (iv) obligations under a facility or deposit agreement are performed by a third party, which is not a debtor of a bank (banking group) under such facility or deposit agreement. The amendments will become effective from 1 January 2017.

In addition, with effect from 1 January 2016, the CBR Regulation No. 509-P dated 3 December 2015 (**"Regulation 509-P"**) introduced mandatory ratios with respect to banking groups, which are to be calculated on a consolidated basis and reported to the CBR by the parent credit organisation for the banking group. Such ratios include, among others, base capital adequacy ratio (N20.1), core capital adequacy ratio (N20.2) and own funds adequacy ratio (N20.0) with minimum values set at 4.5 per cent., 6.0 per cent and 8.0 per cent.,

respectively. The procedure for calculating these ratios is generally based on the Instruction 139-I, with adjustments contemplated by Regulation 509-P.

Further, the Instruction 139-I was amended by CBR Regulation No. 3490-U dated 16 December 2014, as amended, to introduce, among other things, new mandatory ratio (N25) with effect from 1 January 2016. The new ratio is intended to limit the credit exposure of a bank to a related party or a group of persons related with a bank (as defined in the applicable regulations). It is defined as the ratio of the aggregate amount of the bank's claims against a related party (or a group of related parties) to its capital base, with the maximum value set at 20 per cent.

The CBR Regulation No. 112-I dated 31 March 2004, as amended, describes the methods of calculating an additional ratio that, pursuant to Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003, as amended (the "**Mortgage Backed Securities Law**"), applies to banks that issue mortgage-backed securities.

The additional ratio regulates claims relating to principal and interest on loans secured by mortgages to the principal and interest of mortgage-backed securities (N18), which must be at least 100 per cent.

A bank must comply with these special ratios from the time it decides to issue mortgage-backed securities until the complete redemption of mortgage-backed securities.

Regulation of currency exposure

CBR Instruction No. 124-I dated 15 July 2005, as amended, governs banks' exposure to foreign currency and precious metals (together, "**currency exposure**"). Banks calculate their currency exposure in respect of net balance sheet positions, spot market positions, forward positions, option positions, guarantees, suretyships and letters of credit. An "open currency position" is the sum of these net amounts. Banks calculate their exposure for each currency and each precious metal and then convert it into Roubles in accordance with CBR's official exchange rates and prices for precious metals.

At the end of each operational day, the aggregate amount of all long and short currency positions must not exceed 20 per cent. of the bank's capital base. Concurrently, at the end of each operational day, the long and short position in respect of any single currency or precious metal must not exceed 10 per cent. of the bank's capital base.

According to the CBR Regulation No. 509-P dated 3 December 2015, the sum of all long (short) currency exposures of a parent organisation of a banking group and its participants in particular currencies and precious metals must not exceed 20 per cent. of the banking group's own funds (capital base) and any long (short) currency exposures of a parent organisation of a banking group and its participants in particular currencies, including Roubles, and precious metals must not exceed 10 per cent. of the banking group's own funds (capital base).

Reporting Requirements

Under CBR Regulation No. 2332-U dated 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, half-yearly and yearly basis, and certain reporting is effected on a non-regular basis. Specific

reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U dated 14 July 2005, as amended.

Financial statements must be disclosed to the public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor if interim financial statements were subject to review.

Under the Banking Law, banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must annually and semi-annually submit their consolidated accounts to the CBR.

The CBR may at any time conduct full or selective audits of any bank's filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, except for limited circumstances provided in the CBR Law.

Pursuant to the CBR Regulation No. 3087-U dated 25 October 2013, as amended ("**Regulation 3087-U**"), a parent organisation (holding company) of a banking holding must publish audited year-end consolidated financial statements accompanied by an auditor's report not later than 150 calendar days from the end of the relevant financial year. The year-end consolidated financial statements are published in Russian and the financial presentation set out in such financial statements must be made in Roubles. According to the Regulation 3087-U, year-end consolidated financial statements accompanied by an auditor's report must be filed with the CBR within 3 business days from their publishing, but in any case, not later than 1 July. The Regulation 3087-U became effective on 1 January 2014.

Pursuant to CBR Regulation No. 3777-U dated 9 September 2015 ("**Regulation 3777-U**"), banking holdings must prepare reports on their financial risks semi-annually. Such reports are prepared on the basis of the information included in the IFRS consolidated financial statements. According to Regulation 3777-U, the CBR is entitled to request such reports on other dates in which case the banking holding will be required to submit the relevant report within 30 days from such request. Regulation 3777-U became effective on 28 November 2015.

Accounting Practices

In accordance with the Banking Law, banks are required to prepare and publish certain RAS accounting reports quarterly, including interim financial statements, information on risks and capital, risks assessment and risks and capital management.

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. The CBR also establishes accounting rules and procedures for banks.

Accounting practices are regulated by the CBR Regulation No. 385-P dated 16 July 2012, as amended, pursuant to which financial statements of credit organisations must be prepared in accordance with RAS.

Pursuant to the CBR Regulation No. 3580-U dated 2 March 2015, credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS and submit them to the CBR prior to 1 July of the year following the reporting year. The CBR issued recommendations as to how to prepare IFRS financial statements in the CBR letter No. 234-T dated 6 December 2013 that contains pro forma IFRS financial statements and examples of typical adjustments to RAS financial statements.

Credit Reporting

Federal Law No. 218-FZ "On Credit Histories" dated 30 December 2004, as amended (the "**Credit Histories Law**"), provides for the establishment, for the first time in the Russian Federation's recent history, of "credit bureaus" that maintain a database of borrowers' credit histories. According to the amendments to the Credit Histories Law in effect from 1 July 2014 all credit organisations are required to provide at least one credit bureau included in the state register of credit bureaus with certain information, the list of which is set out in the Credit Histories Law, in relation to the borrowers without obtaining their consent. Other information in relation to the borrowers may be provided to credit bureaus only upon the borrower's consent. The borrower's credit history consists of public, confidential and informational parts and must include, among other things, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. CBR will oversee the credit bureaus and maintain a general catalogue of credit histories. As at 27 July 2016, CBR had registered 18 credit bureaus.

Four sets of amendments to the Credit Histories Law have been enacted effective from 1 March 2015, 1 July 2015, 10 January 2016 and 23 June 2016 accordingly. The amendments introduce, among other things, changes relating to the sources of the credit history formation, terms of storing of the credit history and the obligations of the credit bureaus. Pursuant to these sets of amendments the CBR inspects the quality of the services provided by the credit bureaus, including accuracy and reliability of the information, compliance with the provisions of the Credit History Law and observance of the rights of the participants of the informational exchange.

Regulation of Mortgage Backed Securities

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the Mortgage Backed Securities Law and amendments to the Civil Code, Tax Code and the Federal law No. 102-FZ "On Mortgages" dated 16 July 1998 (the "**Law on Mortgages**"), as amended, were enacted in an effort by Russian legislators to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. The legislators also aimed to introduce improved regulation of mortgage-backed securities in order to make them more attractive for investors. The Mortgage Backed Securities Law is used actively by Russian banks to issue local mortgage backed bonds.

In addition, under a separate Federal Law No. 264-FZ "On Amendments to the Federal Law "On Mortgages" and Certain Legislative Acts of the Russian Federation" dated 22 December 2008, as amended, important procedural changes were introduced to the process of recording mortgage certificates in order to facilitate transactions with such certificates, which is expected to facilitate the issuance of mortgage backed securities. An

owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates and, as such, facilitating transactions with them. If mortgage certificates are recorded with a depositary, their transfer and pledge is effected by making entries in the relevant depositary account instead of endorsing the original mortgage certificates.

It is now possible to publish pro-forma conditions of mortgage certificates on an Internet website or in a publication and incorporate such conditions into the mortgage certificates by reference.

Developments in Regulation of Pledge and Pledge Enforcement

Federal Law No. 306-FZ "On Amending Certain Legislative Acts of the Russian Federation in Connection With Perfecting the Procedure for Levying of Execution Against Pledged Property" dated 30 December 2008 that came into effect on 11 January 2009, as amended, amends seven main laws governing the process of pledging and alters significantly the concept of pledge (including the concept of mortgage being the pledge of immovable property) as it relates to enforcement rights against pledged property (the "**Amendments**").

A further federal law No 312-FZ dated 30 December 2008, as amended, introduced amendments that took effect on 1 July 2009 concerning the pledge of participation interests in Russian limited liability companies.

Significant changes have been made to the enforcement procedure of pledged property. Under Russian law, the enforcement of a pledge occurs in two stages: first, the levying of execution against the pledged property; and second, its subsequent realisation (or sale).

The Amendments (i) confirm the availability of an out-of-court enforcement procedure for pledges of movable property, (ii) extend the right to use an out-of-court procedure to mortgages, and (iii) provide a mechanism for securing compliance with the out-of-court enforcement procedure.

The Amendments remove the requirement that the pledged property be sold at a public auction in all cases. Instead, the Civil Code now explicitly states that claims of a creditor secured by a pledge over property can be satisfied by the transfer of ownership in the pledged property to the secured creditor except where the mortgaged property is land. This is a fundamental development in the concept of pledge under Russian law, which creates a more creditor friendly enforcement mechanism.

Parties to a pledge agreement now have several options as to how to sell or dispose of the pledged property in order to discharge secured claims.

Further amendments to several Russian laws, including those relating to enforcement of pledges, were passed in late 2011. Generally, these amendments are aimed at further development of out-of-court enforcement and resolve several practical issues arising from the Amendments. Notwithstanding these improvements, the Amendments spawned new issues which need to be addressed. In particular, currently, it is arguable that an out-of-court enforcement against a pledged property is only available if the underlying pledge agreement is notarised.

At the end of 2013, Federal Law No. 367-FZ "On amendments to Part I of the Civil Code of the Russian Federation and abolishment of certain laws (provisions of certain laws) of the

Russian Federation" introduced further amendments to the existing regulation of pledges. The following new concepts and key changes are of the most importance:

- amendment of the general provisions on pledges aimed at decreasing certain formalities for the creation and validity of pledges, providing better protection of the rights of bona fide pledgees and addressing certain deficiencies in the existing regime on pledges;
- introduction of a concept of *pari passu* ranking of pledges over a single asset in favour of multiple creditors;
- incorporation in the Civil Code of a regime for the registration of pledges over property other than immovable property;
- introduction of the concept of a security agent, intended to deal with security to be created in favour of multiple creditors, primarily in syndicated financing;
- amendment of the rules on the enforcement of pledges over different types of moveable property (in particular, out-of-court enforcement);
- introduction of a pledge of rights over bank accounts setting out special rules for the regime of a secured account, and a special mechanism for the enforcement of such pledge; and
- introduction of rules regulating the pledge of participants' and shareholders' rights in a limited liability company and a joint stock company.

The changes came into force on 1 July 2014.

Internal Control

Under the CBR Law, the CBR has the authority to impose compulsory rules of organisation of the internal control. Under the regulation No. 242-P "On Organisation of the Internal Control in Credit Organisations and Banking Groups" dated 16 December 2003, as amended, the internal control shall be performed in accordance with the authority granted in constitutive and internal documents by

- the General Shareholders' Meeting and board of directors;
- CEO and collective executive body;
- audit commission (auditor);
- chief accountant (or its deputies) of the credit organisation;
- CEO (its deputies) and chief accountant (its deputies) of the branch office;
- divisions and officers performing internal control according to the internal documents of the credit organisation including among others;
- internal control service;

- responsible officer (structural division) on combating the legalisation (laundering) of income obtained by illegal means and financing of terrorism.

Internal control service performs, among other things, the following functions:

- checks and evaluates the efficiency of the internal control system;
- checks the compliance of the internal documents with the legislation;
- assesses the economic efficiency of the performed operations;
- checks the completeness of application and efficiency of the methodology of assessment of the banking risks and banking risk management.

Regulation of Insider Dealing

Federal Law No.224-FZ "On Counteracting the Abuse of Inside Information and Market Manipulation and Introducing Amendments to Certain Legislative Acts of the Russian Federation" dated 27 July 2010, as amended (the "**Insider Dealing Law**") defines "inside information" and lists categories of persons that can be considered insiders, including, among others, issuers, professional securities market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or commodities, and have received inside information from their clients. Under the Insider Dealing Law, "inside information" is information, *inter alia*, (i) which is precise, (ii) which has not been distributed or furnished, (iii) the distribution or furnishing of which can have a significant impact on the price of financial instruments, foreign currencies and/or commodities, and (iv) which is included in the list of inside information adopted by the CBR and published by the persons who are required to maintain such lists. Under the Insider Dealing Law, any person who illegally uses inside information and publishes misleading information may be held liable for misuse of such information and/or market manipulation. Most legal entities falling into one of the categories of insiders must draw up and maintain insider lists which must be submitted (i) to an exchange no later than 6 pm on the day following the date when they are drawn up or updated, and (ii) to the CBR upon its request. Furthermore, insiders have certain reporting obligations towards the persons maintaining the relevant insider lists and the CBR in respect of their operations with financial instruments, foreign currencies and/or commodities. Under the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U dated 31 October 2011, the CBR has started disclosing certain facts relating to banks on its website, including (1) the status and results of inspections, (2) revocation of licences, (3) administrative liability of credit organisations or their sole executive bodies, (4) invalidation of the CBR's approval to accept retail deposits and open and maintain bank accounts for individuals, and (5) phases of issuance of securities. Given the Insider Dealing Law is relatively new and vaguely worded, its application in practice is not yet settled.

The Central Depository Law

Federal Law No. 414-FZ "On the Central Depository" dated 7 December 2011, as amended, (the "**Central Depository Law**"), which generally came into force on 1 January 2012, provides a legal framework for the establishment, and operational conditions, of a central depository, in particular, a setting out the rights and obligations of the central depository, requirements for its activities and the specifics of state control and supervision of its

activities. The Central Depository Law aims at improving the effectiveness and competitiveness of the Russian stock market, including expediting and facilitating securities trade settlements and mitigating the risks associated therewith. Under the Central Depository Law, a central depository is defined as a depository that is a non-banking credit organisation, to which the status of a central depository has been assigned. Only a joint-stock company registered in Russia can be a central depository. Pursuant to the Central Depository Law, a central depository (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. Also, the Central Depository Law prohibits persons maintaining securities registers from opening, and depositing securities with, other nominal holder accounts from the opening date of a nominal holder account of the central depository. On 6 November 2012, the status of a central depository was assigned to National Settlement Depository.

The Insolvency Regime for Credit Organisations

The Insolvency Law

In December 2014, Federal Law No. 432-FZ "On Amending Certain Legislative Acts of the Russian Federation" was adopted. According to this law, the Federal Law No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organizations" (the "**Bank Insolvency Law**") ceased to exist. Pursuant to these amendments, credit organisations, including banks, are subject to special insolvency rules set forth in the Federal Law No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002, as amended (the "**Insolvency Law**").

Workout Proceedings

Before commencement of insolvency proceedings, a credit organisation may be subject to the following "workout" proceedings:

- financial rehabilitation, which includes restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- the appointment of a temporary administration; or
- reorganisation.

The credit organisation's creditors or its shareholders may initiate financial rehabilitation or reorganisation at their discretion or after a request by the CBR. However, only the CBR can appoint a temporary administrator for a credit organisation.

Insolvency Proceedings

Revocation of the Banking Licence and Filing the Insolvency Petition with Arbitrazh Court

A pre-requisite to initiation of bankruptcy proceedings in respect of a credit organisation is the revocation of its licence by the CBR. Under the Insolvency Law, if a credit organisation cannot satisfy creditors' claims within 14 days of when they come due, the following persons may petition the CBR (the "**Licence Revocation Petition**") for revocation of the credit organisation's licence:

- the credit organisation itself;
- its creditors;
- an authorised governmental agency; or
- its employee or former employee.

Under the Banking Law, the CBR must revoke a licence of a credit organisation if, among other things:

- the credit organisation's all capital adequacy ratios fall below 2 per cent.;
- the credit organisation's capital base is less than the minimum nominal charter capital requirement established by the CBR;
- the credit organisation fails to adjust its capital base and nominal charter capital within the established time period;
- the credit organisation fails to satisfy the monetary claims of its creditors, including taxes and other mandatory payments, in the aggregate amount of at least RUB 100,000 within 14 days of when they come due; or
- if the bank's capital base as of 1 January 2015, is less than minimum rate established by the Banking Law (*see – "-Capital Requirements"*), and the bank fails to submit a petition to the CBR for the change of its status to a non-banking credit organisation.

In addition, under certain circumstances, the CBR has the right but is not required to revoke the licence of a credit organisation.

If the CBR revokes the credit organisation's licence, the following persons can petition an arbitrazh court to declare the credit organisation insolvent (the "**Insolvency Petition**"):

- the credit organisation itself;
- its creditors;
- an authorised governmental agency;
- its employee or former employee; or
- the CBR.

If the CBR fails to respond to the Licence Revocation Petition within two months after its submission, the applicant may file an Insolvency Petition with the arbitrazh court.

Upon revocation of the credit organisation's licence, the CBR must appoint a temporary administration for the credit organisation if the temporary administration is not already in place. Upon revocation of the credit organisation's licence, the credit organisation may not enter into certain new transactions or perform certain transactions pursuant to existing obligations.

The CBR must make a public announcement of the revocation of a credit organisation's licence within one week from the revocation date.

Insolvency Proceedings

After a court hearing on the Insolvency Petition, the arbitrazh court may declare the credit organisation insolvent if certain tests established in the Insolvency Law are satisfied.

Upon initiation of bankruptcy proceedings, a moratorium on payments to existing creditors is introduced, and the credit organisation may perform transactions and make payments only in order to satisfy creditors' claims, the ranking of which is set forth in the Insolvency Law.

Appointment of a Receiver

Along with the initiation of bankruptcy proceedings, the arbitrazh court must appoint a receiver for the credit organisation. If the credit organisation did not have a licence to accept deposits from individuals, the court will choose one of the receivers accredited by the CBR. If the credit organisation had such a licence, a representative of the DIA will be appointed.

The receiver assumes management over the credit organisation's operations. The receiver:

- analyses the credit organisation's financial position;
- evaluates the credit organisation's assets;
- identifies creditors and notifies them of the credit organisation's insolvency;
- identifies debtors and requests performance of their obligations to the insolvent credit organisation; and
- performs other functions pursuant to the Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to supervision by the arbitrazh court.

Priority of Claims

Under the Civil Code, and the Insolvency Law, the creditors' claims of a credit organisation rank in the following order of priority:

- *Claims in respect of insolvency proceedings (current payment claims).* Claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments arising after the revocation of the credit organisation's licence.
- *First priority.* The following claims:
 - for reimbursement of damages caused to individuals' life or health;
 - retail depositors' and individuals' claims holding current accounts with the credit organisation (except for individual entrepreneurs);

- claims of the DIA in respect of deposits and current accounts transferred to it pursuant to the Retail Deposit Insurance Law; and
- claims of the CBR relating to the CBR payments to retail depositors of insolvent credit organisations that do not participate in the deposit insurance system.
- *Second priority.* Claims under employment contracts and other social benefits and copyright claims.
- *Claims secured by a pledge of the credit organisation's assets.* Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank pari passu with claims of unsecured creditors.
- *Third priority.* Claims of all other creditors except for claims of subordinated creditors (including, among others, claims of retail depositors for lost profits and penalties, claims of the employees for payment of severance allowance, which is higher than the minimum payment established by the Labour Code of the Russian Federation). Generally, under the Insolvency Law, taxes and similar payment obligations rank pari passu with the claims of unsecured creditors. These provisions, however, contradict the Civil Code of the Russian Federation, which ranks taxes and similar payment obligations above the claims of unsecured creditors. The outcome of this conflict remains untested.
- *Last priority.* Claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

Changes to Russian Insolvency Law

The amendments to the Insolvency Law and the Bank Insolvency Law that took effect on 5 June 2009 (the "**Insolvency Law Amendments**") have significantly contributed to the development of Russian law relating to insolvency in the following areas:

- clarifying the circumstances under which the management and shareholders of a bank must act to liquidate the bank;
- establishing tests for imposing liability on the management of a bank for the debts to its creditors; and
- expanding and clarifying the grounds for challenging transactions entered into by the debtor.

The Insolvency Law Amendments significantly modify the provisions relating to the challenge by an arbitrazh manager in court of transactions concluded by the debtor by expanding the grounds under which such transactions may be challenged and clarifying the lengths of the applicable hardening periods. The receiver can challenge a transaction on its own initiative or pursuant to a request made at the creditors' meeting or by the creditors' committee.

If the Chief Executive Officer, the members of the management board, the directors or the shareholders fail to initiate liquidation of the bank after the "evidence of insolvency" becomes available, the Insolvency Law Amendments impose joint and several secondary (subsidiary) liability for the debts of the bank that arise after the "evidence of insolvency" became available.

In addition, under the Insolvency Law Amendments, if the accounting and other reporting documentation of a bank debtor which must be maintained under Russian law have not been transferred to the temporary administration or a bankruptcy manager or are fully or partially missing, the bank's management, which is under an obligation to ensure the safekeeping of its documentation and property, bears secondary (subsidiary) liability for the debts of the bank debtor.

As mentioned above, pursuant to the Federal Law No. 432-FZ "On Amending Certain Legislative Acts of the Russian Federation" dated 22 December 2014, as amended, in December 2014, the Bank Insolvency Law ceased to exist, and its provisions were incorporated in the Insolvency Law.

This law also introduces certain amendments, the most significant of which provide for the following:

- *Invalidation of the transactions concluded by a bank (or by other persons for the credit organization's account)*
 - a petition for the invalidation of transaction may be submitted to an arbitrazh court by a temporary administration, and by the DIA on behalf of the bank;
 - if the manager of the temporary administration seeks to challenge the deals on debiting the clients' accounts, the burden of proof that such deals are not within the scope of normal business operations lies with the manager. The criteria for determining whether the deal is within the scope of normal business activity or not is established by the Insolvency Law.
- *Liability of persons, who exercise control over the bank*
 - if the bankruptcy of a bank resulted from the acts and/or omissions of persons who exercise control over the bank, and if the property of the bank is insufficient to satisfy the claims, such persons can be held jointly and severally liable. Such liability is of subsidiary nature. Unless otherwise proved, it is deemed that the bankruptcy resulted from the acts and/or omissions of such persons, if one of the below facts has occurred, such as:
 - o the deals of a debtor concluded or approved by such persons caused damage to the property rights of a creditor;
 - o the lack of the mandatory financial accounting statements, or insufficiency/inadequacy of the information, contained therein lead to difficulties in the carrying out of the bankruptcy procedures.
 - a claim against persons, who exercise control over the bank may be brought not later than three years of the date when the bank was declared bankrupt.

This period can be extended for a valid cause. A court may grant interim measures, including seizure of property of such persons;

- a bank itself, or in certain cases the DIA have a right to claim damages for the losses, caused by the malicious acts and/or omissions of the persons who exercise control over the bank;
- if such persons are held liable, they are not allowed to hold managerial positions in banks within five years of the date of fulfilment of the obligations imposed on them by the court;
- *Role of the DIA*
 - The CBR has the right to propose the participation of the DIA in the measures aimed at restoring the solvency of the bank. In this case, the representatives of the DIA will have an access to all documents, premises and informational systems of the bank, and will be entitled to request any kind of information and documents, and to take part in the meetings of the governing bodies of the bank;
 - the DIA may participate in the following measures aimed at restoring solvency of the bank: financial assistance, organisation of trades for sale of the security of the bank, in certain cases, acting as the temporary administration;
 - the financial assistance of the DIA may include acquisition of the bank's property, or contribution to the charter capital of the bank (which is subject to certain requirements established by the Insolvency Law);
 - the above measures are exercised on the basis of a plan, approved by the CBR, and the DIA reports on the fulfilment of the plan on a monthly basis.
- *Measures taken to restore the solvency of the bank*
 - the CBR has the right to decide on decrease of the charter capital of the bank to the amount of its base capital (if this amount is negative, the capital will be decreased to 1 Rouble) and/or to change the shareholding structure of the bank;
 - the property and obligations of the bank may be transferred by the bank to another bank (acquirer). In this case, the acquirer will perform the bank's obligations to the creditors in exchange for the property (including property rights) of the bank.

Further, in December 2014 another set of amendments was introduced by the Federal Law No. 482-FZ, according to which bankruptcy proceedings may be started by an arbitrazh court against a legal entity provided that the aggregate amount of the claims of its creditors is not less than RUB 300,000 (as compared to RUB 100,000 in the previous version). However, with respect to the banks the amount remains unchanged and is equal to RUB 100,000.

Completion of Insolvency Proceedings

Upon, to the extent possible, the collection of debts and satisfaction of claims, the receiver submits a report to the arbitrazh court, which extends or closes the insolvency proceedings. Insolvency proceedings terminate when a court issues a formal decree thereon.

Strategic Plans for Banking Sector Reform

On 5 April 2011, the Russian Government and the CBR issued a declaration on "The Strategy of the Developments of the Banking Sector of Russia for the period till 2015" (the "**2011 Russian Banking Sector Strategy**"). 2011 Russian Banking Sector Strategy was developed in the course of the implementation of the Plan for Implementation of the Main Directions of the Anticrisis Activities and Modernisation Policy of the Russian Government for 2010 approved by the Russian Prime Minister Vladimir Putin on 2 March 2010. It was prepared by the Ministry of Finance and Ministry of Economic Development with the assistance of the CBR.

According to the 2011 Russian Banking Sector Strategy the main purpose of the new period of the development of the Russian banking sector will include the improvement of the quality of the banking business by expanding the range of banking products and services, improving their quality, using modern technologies and, improving the long-term effectiveness and stability of the banking business.

The 2011 Russian Banking Sector Strategy sets out the switch of the banking sector from the extensive to the intensive model of development as one of the key targets. It will, in particular, include the following features:

- a high level of competition in the banking and financial sector;
- the provision of a wide range of modern banking services to clients;
- level of banking sector capitalisation that will support the development of the banking sector, increasing competition and efficiency;
- developed systems of corporate governance and risk management;
- a high level of transparency and market discipline of credit organisations and other market participants;
- liability of senior management, members of the board of directors and owners of banks for the business's operation and the accuracy of disclosed information and information provided to the regulators.

The above mentioned targets are expected to be achieved by the Russian Government and the CBR through the improvement of regulations, establishment of relevant infrastructure, improvement of corporate governance and risk management quality in credit organisations, as well as the maintenance of financial stability. As practical steps, the 2011 Russian Banking Sector Strategy envisages in particular a decrease in the participation of the Russian state in the charter capital of Russian banks (in particular Sberbank, VTB and Joint stock company Russian Agricultural Bank), the adoption of certain laws establishing minimum charter capital requirement for newly established banks from 1 January 2012, and a minimum own

capital requirement for existing banks of RUB 300 million, starting from 1 January 2015. The 2011 Russian Banking Sector Strategy also envisages certain measures to further develop banking supervision. As at the date of this Prospectus the Russian Government and the CBR did not publish any similar banking sector strategy for the upcoming periods.

Basel Implementation in Russia

Russian regulation of capital is generally based on the recommendations of the Basel Committee, starting from the "International Convergence of Capital Measurement and Capital Standards" adopted in July 1988 and updated in April 1998. It is, however, less sophisticated in certain respects. In recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches to capital adequacy of credit organisations under Basel II, as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. The CBR has also started preparing the implementation of the internal ratings based approach of Basel II Pillar 1. As part of this preparation, in January 2013, the CBR published letter No. 192-T of 29 December 2012 "On Methodological Recommendations for implementation of approach to calculation of credit risks on the basis of banks' internal ratings".

As part of introducing Basel II Pillar 2 "Supervisory Review Process", the CBR issued Letter No. 96-T of 29 June 2011 "On Methodological Recommendations for Credit Organisation on Arranging Internal Procedures for Capital Adequacy Assessment" (the "**Methodological Recommendations**"). Under the Methodological Recommendations, credit organisations are recommended to elaborate and use internal procedures for capital adequacy assessment which comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture. Under 2011 Russian Banking Sector Strategy, the implementation of Basel II Pillar 2 and the internal ratings based approach of Basel II Pillar 1 in Russia may begin approximately in 2014 and 2015, respectively.

The 2011 Russian Banking Sector Strategy also contemplates a gradual introduction in Russia of "International Regulatory Framework for Banks" ("**Basel III**") in the following periods: (1) requirements for capital between 2013 and 2015; (2) capital conservation buffer between 2016 and 2018; (3) leverage ratio starting from 1 January 2018; (4) liquidity coverage ratio commencing from 1 January 2015; and (5) net stable funding ratio starting from 1 January 2018. As part of the implementation of Basel III in Russia, Regulation 395-P setting out new capital definitions for Russian banks entered into force on 1 March 2013 (with certain provisions effective from 1 January 2014 and onwards). For monitoring purposes, the new rules generally became effective from 1 March 2013, and reporting pursuant to Regulation 395-P was required from 1 April 2013. Pursuant to amendments introduced to Regulation 395-P by CBR Directive No. 3096-U dated 25 October 2013, which came into effect on 1 January 2014, Regulation 395-P has become effective for prudential purposes from 1 January 2014.

Regulation 395-P distinguishes between core capital (Tier 1 capital, or "*osnovnoi kapital*") and supplemental capital (Tier 2 capital, or "*dopolnitelnyi kapital*") (together, own funds or regulatory capital). Core capital is further divided into base capital (CET 1, or "*bazovyi kapital*") and additional capital (additional Tier 1 capital, or "*dobavochnyi kapital*"). Pursuant to Regulation 395-P, the own funds of Russian banks are determined as the amount of its Tier 1 capital and Tier 2 capital less certain items listed in Regulation 395-P. Regulation 395-P

sets out requirements for subordinated financings (in the form of a loan, a deposit or debt securities) which may be included in additional Tier 1 capital and those which may be included in Tier 2 capital of a credit organisation. Amongst other changes, Regulation 395-P introduces to Russian banking legislation the concept of conversion of subordinated debt into equity (while retaining the concept of write-down and cancellation of subordinated debt instruments), which features have been derived from the Basel III regulations.

As part of the implementation of Basel III with respect to the leverage ratio, the CBR issued Letter No. 142-T dated 30 July 2013 "On Calculation of Leverage Ratio", which sets out the recommended methodology for calculating the leverage ratio and the form for disclosure of information on its components together with the procedure for its completion. Starting from the financial statements as at 1 August 2013, the CBR began collecting data received from banks on the results of the leverage ratio calculation. According to the CBR, mandatory public disclosure by credit organisations of information on the leverage ratio and its components according to the standard form is expected to commence from 1 January 2015, and the application of the leverage ratio for prudential purposes is expected to begin from 1 January 2018.

The CBR adopted the Regulation 421-P which came into effect from 1 July 2014.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the protocol on its accession to the WTO (the "**Protocol**"). The Protocol came into force on 22 August 2012 and Russia became subject to the WTO regime. In relation to the banking sector the Protocol provides that a foreign bank may set up a subsidiary or representative office in Russia, however, the following actions are subject to obtaining the CBR's approval: (i) the incorporation of a Russian legal entity with foreign capital including subsidiaries and affiliates; (ii) the increase of the share capital of a Russian credit organisation using the funds of non-resident companies, and (iii) the disposal of the shares/stocks of a Russian credit organisation to non-resident companies.

The accession of the Russian Federation to the WTO is also expected to require the unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, potentially abolishing certain Russian law provisions that may be deemed discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. At the same time, under the Protocol, the Russian Federation committed to establish a limit on the overall amount of foreign investment into the Russian banking sector of the Russian Federation at the level of 50 per cent. of the total share capital of all credit organisations registered in the Russian Federation. If the threshold is exceeded, the CBR must (i) refuse to register a bank with foreign capital and issue a banking licence to such bank, and/or (ii) impose a temporary ban on disposal of a licensed bank's share capital to foreign investors, including, *inter alia*, through an increase of share capital for the account of a foreign investor.

Recent Amendments to the Civil Code

On 30 December 2012, current Russian President Vladimir Putin signed the first set of amendments to the Russian Civil Code, which form part of a major reform to Russian civil legislation. The majority of these amendments, which became effective on 1 March 2013, relate primarily to certain basic concepts of civil law, such as limits on the exercise of civil

rights, state registration of rights to certain types of property, and compensation for losses incurred as a result of unlawful acts of the state authorities.

The second set of amendments to the Russian Civil Code was signed by the President on 7 May 2013. These amendments affect, inter alia, the general rules on transactions, the grounds on which a transaction may be challenged and the rules governing representation and powers of attorney. The amendments became effective on 1 September 2013. The most significant ones provide for the following:

- a general presumption that a transaction violating applicable law is voidable (rather than void ab initio);
- a requirement that a person challenging a transaction be either a party to the transaction or another person specified by law. Furthermore, in order to prevent counterparties from challenging transactions in bad faith on formal or technical grounds, the amendments provide that a claim on challenging transaction will not be upheld if the party making the claim acted in a way that allowed other parties to treat the transaction as valid;
- general rules for adopting and challenging decisions taken at meetings (such as creditors' meetings and other meetings which have legal consequences) were introduced. Such general rules should not apply to shareholders' meetings in a joint stock company or participants' meetings in a limited liability company or any other meetings to the extent they are otherwise regulated;
- a number of requirements regulating the matters of representation and powers of attorney were amended and updated. Among other things, the amendments lift the restriction on the maximum term of powers of attorney (previously, three years) thus allowing a power of attorney to be issued for a longer term and introduced a new type of a power of attorney (an irrevocable power of attorney), which requires notarization. Additional measures protecting the counterparty's rights under transactions entered into with unauthorized person were introduced. The amendments also provide for a new procedure of notification of third parties of revocation of a power of attorney by means of publication of the relevant termination notice;
- general rules for legal notices and notifications were introduced; and
- a final 10-year term for enforcing one's rights through the court was introduced in addition to the existing three-year limitation period. In addition, pursuant to the amendments, the limitation period starts running from the day the respective person learned or should have learned (i) about the violation of his right and (ii) who is the competent defendant in respect of the claim for protection of the relevant right.

The third set of amendments was signed by the President on 2 July 2013, which primarily affects provisions of the Russian Civil Code dealing with securities. These amendments took effect on 1 October 2013. The most significant of these amendments provide for the following:

- differentiation of the regimes applicable to certificated and uncertificated securities: under the new classification certificated securities are treated as tangible property, while uncertificated securities are treated as "other property". Under the general rule, provisions governing registered certificated securities, records of which are maintained by a registrar or custodian, also apply to uncertificated securities. At the same time, a new section dedicated exclusively to uncertificated securities and dealing with specific aspects of their regulation was added to the Russian Civil Code. In particular, rules were introduced protecting holders of uncertificated securities in cases where the securities have been unlawfully debited from their accounts;
- a new concept of an "integrated immovable property complex", defined as a set of physically or technologically interconnected immovable property objects having the same designated use and treated as a single item of real property, was added to the Russian Civil Code; and
- a general rule that any benefit, output or proceeds resulting from the use of an asset belongs to the owner rather than its user.

The fourth set of amendments to the Russian Civil Code was signed by the President on 30 September 2013. These amendments became effective on 1 November 2013. The most significant of which provide for the following:

- a court may impose the duty of providing information on the content of foreign law rules only on the parties to the proceedings (before the introduction of the relevant amendment a court could vest the burden of proof of the content of foreign law rules in the parties);
- an exception from the general rule on *lex personalis* of legal entities was introduced providing that at the choice of the creditors either the Russian law or the personal law may apply to liability claims to a foreign legal entity's founders (participants) and other persons entitled to give instructions to be followed by a foreign legal entity predominantly carrying out its business activities within the territory of the Russian Federation; and
- parties to foundation agreements and participants agreements of a legal entity are now free to choose the governing law applicable to such agreements, as long as that choice does not affect the operation of the imperative requirements of the *lex personalis* of the respective legal entity.

The fifth set of amendments to the Russian Civil Code, primarily deals with rules related to pledges and mortgages. (See "*Developments in Regulation of Pledge and Pledge Enforcement*").

The sixth set of amendments to the Russian Civil Code was also signed by the President on 21 December 2013 and introduced "nominee account agreements" and "escrow agreements" as contracts. These amendments became effective on 1 July 2014.

The seventh set of amendments to the Russian Civil Code was signed by the President on 12 March 2014, primarily deals with rules related to legal protection of intellectual activity

and means of individualization. The majority of these amendments took effect on 1 October 2014. The most significant of these amendments provide for the following:

- rules regulating pledge of exclusive rights were introduced;
- the prohibition for a right holder to use a result of intellectual activity for which it granted an exclusive license;
- decrease up to five years of the effective term of an exclusive right to utility models;
- the imperative rule under which proceeds from joint disposal of an exclusive right should be distributed equally among the right holders.

The eighth set of amendments was signed by the President on 5 May 2014 and covers a wide range of corporate issues. These amendments took effect on 1 September 2014 and the most significant of them provide for the following:

- a new division of legal entities into corporations and unitary legal entities;
- replacement of open and closed joint stock companies by public and non-public entities;
- new opportunities for corporate structures;
- general principles of "corporate contracts" (shareholders agreements and participants agreements);
- the scope of liability of the management bodies and persons who may determine a business entity's conduct;
- new types of reorganization;
- grounds for invalidating reorganization coupled with the relevant aftermath;
- the priority of creditors in terms of liquidation.

The ninth set of amendments was signed by the President on 8 March 2015 and covers primarily the law of obligations and contracts. These amendments entered into force on 1 June 2015 and the most significant of them provide for the following:

- extension of statute of limitations where the debtor accepts its debt in writing;
- an option for the creditors to enter into an agreement on the procedure and manner of satisfaction of their claims by the debtor;
- amendments of certain provisions relating to the place of the performance of an obligation and maturity thereof;
- amendments of certain provisions relating to security, including introduction of a new type of security, security payment, to the Civil Code;

- change of the basis of calculation of interest for unauthorised use of monetary funds (i.e., determination by reference to the average retail deposits interest rate, unless otherwise set out by law or contractual arrangements);
- introduction of concepts similar to representations, warranties and indemnity; and
- amendments of certain provisions relating to pre-contractual obligations and liabilities.

In addition to the full scope amendments described above the Civil Code has been further amended on a case by case basis.

Accordingly, on 29 June 2015, the President signed the first group of amendments which deals with certain bankruptcy and corporate law aspects, including the ranking of claims in bankruptcy proceedings. The amendments took effect on 1 July 2015, 29 September 2015, 1 October 2015 and 29 December 2015.

On 13 July 2015, the President signed the second group of amendments which became effective on 13 July 2015 and 1 September 2015. These amendments introduce new requirements as to the privatisation of unauthorised structures and amend the regulation of the status of bar associations.

On 28 November 2015 and 31 January 2016, the President signed the third group of amendments which introduce changes to certain regulatory aspects of exclusive rights of authors of audiovisual and musical works and status of associations of homeowners. The amendments became effective on 9 December 2015 and 31 January 2016, respectively.

The following group of amendments to the Civil Code was signed by the President in the first quarter of 2016 and cover certain aspects of the law of succession. While some of the amendments entered into force in the first quarter of 2016, the last of these amendments become effective on 1 September 2016.

On 3 July 2016, the President signed the most recent amendments which took effect on 1 August 2016. These amendments relate to contractual interest and default interest accruing by operation of law. The amendments provide that, unless an interest rate is stipulated in the contract or by law, such interest shall be calculated, in each case, on the basis of the base rate established by the CBR. The contractual interest shall only accrue where it has been so expressly provided in the contract or set forth by law.

As of the date of this Prospectus, there exists certain ambiguity in interpretation of the above amendments by state authorities (including the courts) and the full impact of the above amendments on the Group's activities and corporate governance, is unknown.

Recent Amendments to the Regulation of Interested Party and Major Transactions

On 3 July 2016, the President signed the Federal Law No. 343-FZ "On Amendments to the Joint Stock Companies Law and the Federal Law on Limited Liability Companies Relating to the Regulation of the Major and Interested Party Transactions" (the "**Amendment Law**") which comes into effect on 1 January 2017. The Amendment Law sets forth a new regime of

major and interested party transactions under Russian law. Below are set out the key amendments introduced thereby.

Major Transactions

- tests for determination of the value of the property transferred are amended;
- additional categories of transactions (e.g. public offering of shares, purchase of shares under a mandatory offer where the purchase of shares triggering mandatory offer has been previously approved) are exempt from the application of approval requirements;
- a requirement of the board of directors to issue a report in respect of each major transaction and provide such reports to the general shareholders meeting is introduced;
- provisions regarding challenging major transactions are amended to:
 - include the members of the board of directors as having standing in such claims; and
 - establish the minimum threshold of 1% of voting rights in order to be eligible to file the relevant claim.
- different requirements are set forth in relation to preliminary and subsequent approvals; and
- the maximum statutory period of validity of preliminary approvals is set at 1 year.

Interested Party Transactions

- the concept of "interested parties" has been amended to refer to the concepts of "controlling/controlled entities" rather than "affiliated persons";
- the range of transactions subject to approval has been narrowed;
- quorum and approval requirements are changed;
- certain additional categories of transactions are exempt from the application of approval requirements;
- amendments, analogous to the regime applicable to major transactions, are introduced to the provisions regarding the persons eligible to challenge interested party transactions;
- the requirement for preliminary approval of interested party transactions is eliminated save where it is so specifically required by law; and
- higher burden of proof has been imposed on claimants seeking to challenge interested party transactions.

APPENDIX B – REPUBLIC OF TATARSTAN

Introduction and Constitution

Originally formed in 1920, the Republic of Tatarstan (the "**Republic**") was known in Soviet times as the "Tatar Autonomous Soviet Socialist Republic". In August 1990, Mintimer S. Shaimiev, who was at that time Chairman of the Supreme Soviet of Tatarstan, signed the "Declaration of State Sovereignty", which proclaimed that Tatarstan had primary jurisdiction and ownership over state enterprises located on its territory and that the Tatar Constitution and the Republic's laws prevailed. In late 1991, the Soviet Union was dissolved and succeeded by the Russian Federation. In February 1992, Tatarstan changed its name to the Republic of Tatarstan. In March 1992, a referendum declared the Republic of Tatarstan to be 'a sovereign state and a subject of international law associated with the Russian Federation'.

Under the Constitution of the Russian Federation adopted on 12 December 1993 (the "**Constitution**"), the Republic has the status of a "subject" of the Russian Federation. As of 20 September 2016, there are 85 subjects within the Russian Federation: 22 republics, 46 regions, nine territories, one autonomous region, four autonomous areas and three cities of federal significance, Moscow, St. Petersburg and Sevastopol. These subjects are governed by their respective legislative and executive authorities and have their own budgets.

On 12 June 1991, Mintimer S. Shaimiev was elected the first President of the Republic and the first Constitution of the Republic was adopted in November 1992. The Republic consequently entered into negotiations with the Russian Federation, which, in February 1994, resulted in the signing of the treaty on the "Segregation of Responsibilities and the Mutual Delegation of Powers between the State Bodies of the Russian Federation and the Republic of Tatarstan" (the "**Russia-Tatarstan Treaty**" or the "**Treaty**"). The Treaty recognised the Republic's sovereignty and confirmed the Republic as a part of the Russian Federation. In addition, it delineated those areas which were the specific areas of responsibility of the Russian Federation and those which were the responsibility of the Republic.

One of the most significant results of the Russia-Tatarstan Treaty was that the Republic claimed complete ownership and responsibility for all enterprises, natural resources and organisations located on its territory, except for "federal property", which consisted mainly of military installations and federal monopolies located in the Republic (e.g. railroads and pipelines). It also resulted in the Republic being able to retain control over the privatisation process, rather than being required to comply with the privatisation laws of the Russian Federation.

As a result, the Republic received and retained significant ownership in the privatised enterprises located on its territory and received a golden share in certain enterprises which were viewed as strategically important or having the potential to be profitable. The Republic's ownership of its land also enabled it to resolve the issue of land ownership in a more transparent fashion than in certain other regions of the Russian Federation and, as a result, companies may now own the land on which they are situated and foreign-owned entities set up in the Republic are allowed to purchase land.

On 10 May 2002, the original constitution of the Republic was replaced with the current Constitution, which was adopted in compliance with the Federal Constitution. The Treaty is, as a practical matter, no longer effective.

State authority in the Republic is exercised by the President of the Republic, the State Council of the Republic (the "**State Council**"), the Cabinet of Ministers of the Republic (the "**Cabinet**") and the courts (which are integrated into the federal judicial system), comprising a division of authority into legislative, executive and judicial functions. The State Council (the "**Republic's parliament**") performs legislative functions. The President, the Cabinet, ministries and state committees and other executive bodies of the Republic (together, the "**Government**") constitute the executive authority of the Republic.

The State Council is the supreme representative and legislative body of the Republic and is elected for a term of five years. It is comprised of 100 deputies. Twenty of the elected deputies work on a full-time basis at the State Council as heads of the State Council and its Committees.

The State Council, headed by a Chairman, adopts, and can modify, the Constitution, vests authority in the President, regulates the jurisdiction subjects of the Republic and subjects of joint jurisdiction of the Russian Federation and its subjects *intra vires* the Republic of Tatarstan, establishes the administrative-territorial structure of the Republic and sets procedures for its modification, establishes the organisational framework for republic-wide and local authorities, passes the state budget and oversees other matters. The State Council elects the Constitutional Court, approves candidates for the posts of Prime Minister, Chairman of the Constitutional Court and Deputy Chairman of the Constitutional Court, elects Justices of the Peace and Representatives for Human Rights in the Republic and co-ordinates the candidates for the post of Public Prosecutor of the Republic. The most recent parliamentary elections were held on 14 September 2014.

The Cabinet is an executive and regulatory public authority and is responsible to the President of the Republic. The Cabinet consolidates, directs and controls the work of ministries, state committees and certain other authorities under its jurisdiction. It also ensures the compliance of local normative legal acts with federal legislation, the Constitution, the laws of the Republic, legal acts of the President of the Republic and legal acts of the Cabinet. Members of the Cabinet include, among others, the Prime-Minister of the Republic, his deputies and ministers of the Republic. The President co-ordinates the candidates for the post of the Prime Minister and appoints deputies thereof, subject to approval of the State Council. The ministers of the Republic are appointed by the President at his discretion.

In March 2005, the President of the Republic, Mr Mintimer S. Shaimiev, resigned prior to the expiry of his third presidential term and was nominated by the President of the Federation to govern the Republic for a further term of five years. The State Council appointed Mr. Mintimer S. Shaimiev as President of the Republic for a further term of five years in March 2005. In February 2010, the State Council approved the candidacy of Mr. Rustam Minnikhanov proposed by the Russian President Mr. Dmitry Medvedev to a position of President of the Republic, who assumed office in March 2010 and was re-elected in September 2015.

The previous Russia-Tatarstan treaty was succeeded by a new 10-year Treaty on Delimitation of Jurisdictional Subjects and Powers between Bodies of Public Authority of the Russian Federation and Bodies of Public Authority of the Republic of Tatarstan, which was signed on 26 June, 2007 by the then President of the Russian Federation, Mr. Putin and the then President of the Republic of Tatarstan, Mr. Shaimiev. This Treaty was ratified by Federal Law 199-FZ of 24 July, 2007. The new Treaty consolidated the existing status of the Republic, recognising the Constitution as the basis of the statehood of the Republic and

reconfirmed both the level of international relations permitted to the Republic and the necessity of the Republic working with the federal government and other federal subjects.

Geography and Demographics

The Republic is situated in the highly industrialised Volga basin about 800 kilometres south east of Moscow, on the confluence of the Volga and Kama rivers on the eastern part of the east European plains. It covers an area of approximately 67,836 square kilometres (the territory of Tatarstan is comparable to the territory of Benelux countries).

The territory is rich in a number of natural resources, which are the mainstay of the local economy. Principal among these is oil, which has been produced commercially in the Republic since 1946, with current annual production at the level of 960 million cubic meters of associated oil gas tons per annum. Mineable oil reserves are estimated at around 800 million tons. The Republic also has reserves of gas, petroleum bitumen, brown and black coal, combustible shale, copper ore, gypsum, phosphorites and aggregates.

The population of the Republic is approximately 3.8 million, of whom approximately 2.8 million or 75.4 per cent. live in urban areas. The population of the capital city of the Republic, Kazan, is 1.2 million, making it the sixth largest city in the Russian Federation. Kazan is recognised as one of the oldest Russian cities. In April 2009, Kazan was officially accorded the status of Russia's third capital. Kazan was the host for the 2013 Summer Universiade, an international multi-sport and cultural festival for university athletes which is staged every two years in a different city and which is second in importance only to the Olympic Games.

Although there are as many as 173 different ethnic groups living in the Republic, the two largest groups are Tatars (53.2 per cent.) and Russians (39.7 per cent.). These proportions are in accordance with the 2010 Russian Population Census. The Tatar population is predominantly Muslim and speaks Tatar, which is a Turkic language closely related to modern Turkish. The Republic has both Tatar and Russian as its official languages and the Constitution guarantees their equality. The vast majority of Tatars also speak Russian, and Russian is widely used for business and administrative purposes.

Over the recent years, Kazan has become a major international sports centre. In 2011, Kazan hosted F1H2O World Championship. In addition, in 2013 Kazan also hosted the Summer Universiade and, in 2015, the World Aquatics Championship. In addition, Kazan will also host the games of 2018 FIFA World Cup.

The Republics Economy

Overview

The Republic is one of the most economically developed regions of the Russian Federation. In 2015, the Republic had a gross regional product ("**GRP**") of RUB 1,825 billion, representing 2.3 per cent. of the total nominal GDP of the Russian Federation, effectively making it the seventh largest subject in that respect. This represents a growth of 11.9 per cent. in the Republic's GRP between 2014 and 2015, as compared to the total Russian GDP decline of 3.7 per cent. for the same period.

Industrial production

According to Territorial Body of the Federal State Statistic Service in the Republic of Tatarstan (the "**Tatarstanstat**") the Republic's industrial production in 2015 amounted to RUB 1,856.5 billion. The Republic is the largest amongst the 14 subjects located in the Volga Federal District in terms of natural resources production and is in the top five of all Russian Federation subjects in this respect.

According to the official website of Tatarstan the Republic produced approximately 6.4 per cent. of Russian crude oil (over 34 million tonnes a year) in 2015.

The Republic's key industries are natural resources production and processing (mainly crude oil and gas), heavy machinery construction and the chemical and petrochemical industries. The following enterprises represent a large proportion of the industrial sector of the Republic: PJSC Tatneft (oil and gas) (one of the largest Russian companies in terms of production of oil, producing approximately 70 per cent of Tatarstan oil), PJSC Kamaz (trucks and cars) (company produced approximately 29,704 trucks in 2015 and its revenues amounted to RUB 97.5 billion), TAIF Group (oil processing) (one of the largest Russian company in terms of revenues), PJSC Nizhnekamskshina (tyres and chemicals), PAO Nizhnekamskneftekhim (petrochemicals), PJSC Kazanorgsintez (petrochemicals), Tatenergo (energy generation), PJSC Kazan Helicopter Factory (civil and military helicopters of different types), Gorbunov KAPO (aircraft) and local branches of PJSC Sollers (licenced commercial and passenger cars).

The share of industrial sector in the gross regional product of Tatarstan was approximately more than 40 per cent. in 2015.

Agriculture

According to the official website of the Republic of Tatarstan the total area of the Republic is 6.8 million hectares, of which 4.6 million hectares is agricultural land. Approximately 3.5 million hectares are arable land. The Republic's agricultural sector satisfies the basic needs of the population in terms of food supplies. The Republic is one of the top three regions of the Russian Federation in the production of grain, meat, milk and other agricultural products. The Republic using 2.2 per cent of Russia's agricultural land produces approximately 5 per cent. of the Russian Federation's total agricultural products. The value of agricultural products produced in the Republic in 2015 amounted to approximately RUB 213.7 billion, representing a growth in comparable prices of 104.7 per cent. from 2014. The share of agriculture in the gross regional product of Tatarstan was approximately 7.4 per cent. in 2015.

Construction

According to the Tatarstanstat approximately 42,211 people are employed by the Republic's construction and construction materials industry, which contributed RUB 285.2 billion to the Republic's economy in 2015. There are a number of industrial construction projects underway in the Republic, the largest of which is the construction of plants for OJSC Ammoniy (ammonia products and methanol). In 2011 one of the largest construction projects of the recent years, the construction of plants for OJSC TANECO (oil and gas processing), was finalised and the plants were put into operation. In 2015, newly constructed housing space in

the Republic amounted to 2,405.5 thousand square metres, representing a 0.03 per cent. increase from 2014.

The share of construction in the gross regional product of Tatarstan was approximately 9.1 per cent. in 2015.

Transport

The Republic's road, rail and river lines network is one of the most developed in the Russian Federation and provides easy access to a wide range of areas of the Russian Federation, including the Urals, Siberia, the Far East and the European part of the Russian Federation.

According to the Tatarstanstat in 2015 the Republic's road network included 14,505.1 kilometres of roads. The Republic is served by major railway lines connected to Moscow, Nizhniy Novgorod, Kirov, Chelyabinsk and Ekaterinburg with a total length of more than 840 kilometres of general purpose rail. The Republic has three airports connecting it to locations within the Russian Federation, Turkey, Germany, Kazakhstan, Azerbaijan, the UAE, the Czech Republic and other countries. Currently, five airlines are based in the Republic. There are three navigable rivers in the Republic: the Volga, the Kama and the Vyatka, of which 843 kilometres are navigable. The Volga and Kama rivers form a united deep water traffic system in European Russia.

The Republic of Tatarstan is one of the largest pipeline hubs in Eastern Europe. According to the Tatarstanstat in 2015 there were 5,968 kilometres of major pipeline in the Republic which in particular facilitate the transportation of oil to a number of CIS and European countries and to other regions of the Russian Federation. The Urengoy – Central Russia and the Urengoy – Pomary – Uzhgorod transcontinental gas pipelines pass through the Republic. In addition, the "Druzhba" (or "Friendship") oil pipeline, which connects with a number of European countries, starts in the city of Almetyevsk in the Republic.

Communications

The Republic's telecommunications sector is currently fully monopolised with the gross product of the sector amounting to RUB 49.4 billion in 2015.

The share of transportation and communication in the gross regional product of Tatarstan was approximately 7.6 per cent. in 2015. According to the Tatarstanstat as at 1 January 2015 approximately 84,042 employees were working in the indicated spheres.

Banking system

The Republic has a developed banking sector consisting of 21 banks with 25 branches operating in the Republic. In 2015, the volume of credit exposure in Tatarstan amounted to approximately RUB 895.1 billion. According to the first half of 2016 results, two Tatarstan-headquartered banks (Ak Bars Bank and Tatfondbank) were included in the "TOP 100 Russian Banks" rating compiled by RA Expert, one of the leading Russian rating agencies, with Ak Bars Bank, the largest Tatarstan bank, rated 20th with assets amounting to RUB 412.5 billion.

Foreign Trade and Foreign Investment

According to the official website of the Republic of Tatarstan in 2015, foreign trade turnover decreased by 39 per cent. from 2014 and amounted to U.S. 13.8 billion.

This resulted from a decrease in exports by 38.8 per cent. to U.S.\$ 11.4 billion, and of imports by 40 per cent. to U.S.\$ 2.6 billion from 2014.

Major export partners of the Republic of Tatarstan in 2015 are the Netherlands with a 21.8 per cent. share of the total Tatarstan export turnover, Poland (8.7 per cent.), Belarus (6.1 per cent.), Germany (5.8 per cent.), India (4.5 per cent.), Italy (4.2 per cent.) and Finland (3.2 per cent.). Major import partners of the Republic of Tatarstan in 2015 are Germany with a 20.8 per cent. share of the total Tatarstan import turnover, Belarus (7.6 per cent.), China (7.5 per cent.), the United States of America (7.1 per cent.), Ukraine (6.7 per cent.), Italy (5.0 per cent.), Turkey (4.9 per cent.), Canada (3.9 per cent.) and Spain (2.8 per cent.).

In 2015, foreign investments in the Republic of Tatarstan reached U.S.\$ 488 million, during 2015 the amount of RUB 617.2 billion was invested into Republic. The majority of foreign investment was in natural resources and financial activities. The largest investors which made investments during 2015 into the Republics economy were the United Kingdom and Germany.

Privatisation

The Ministry of Land and Property Relations of the Republic is responsible, *inter alia*, for preparing a privatisation plan and recommending properties, including enterprises, non-residential buildings and shares in various joint stock companies, for privatisation in a given year. This plan is then submitted to the Government for approval. Prior to privatisation, all assets are subject to independent market valuation. All proceeds from privatisation are directed to the Republics budget.

The property of the Republic includes, *inter alia*, those assets which remain in the Republic's ownership but are operated and managed by such specific types of legal entities as "state unitary enterprises" (abbreviated in Russian as "**GUPs**") and "state institutions". A GUP is a commercial legal entity established by the Federation or one of its subjects, which also provides the required operating assets. A state institution is a non-profit organisation established by the Federation or one of its subjects for performing governmental, social or cultural functions with operating assets provided to it by its founder.

The Republic's Budget

Budgetary relations between the Russian Federation and its subjects

The Russian budgetary system has three levels: federal, regional (sub-federal) and municipal. Each level of government has the right to determine its own level of expenditure on social and economic development in line with its own revenues. Each level of government may increase the amount of its expenditure for individual items provided that its own revenues cover the increase. Both federal and regional budgets can subsidise specific items of expenditure of lower budgets through budgetary transfers. The transferee or the donor has the right to specify the type of expenditure the transfer can be used for and any unused amounts should be refunded to the donors budget at the year-end. Budgetary surpluses cannot be taken

over by the federal budget and regional and municipal authorities have discretion as to the use of their respective budgetary surpluses. Higher levels of regional and municipal authorities assume no responsibility for budget deficits or debts incurred by lower levels of regional or municipal authorities.

The Republic's Budget

The main sources of revenue for the Republic are: (i) tax revenues, (ii) non-tax revenues, (iii) transfers from the federal Budget and (iv) revenues of designated purpose funds, being funds established within the federal budget or a Federation budget and financed from specific budget revenues (medical, environmental protection, traffic safety, state housing and small business support being a number of examples). Non-tax revenues primarily comprise lease payments for the use of Republic property, income from the Republic's participation in various state and private enterprises and administrative charges and fines.

By virtue of the Republic's status as a sub-sovereign, the Republic performs all of the functions that fall to subjects of the Russian Federation and retains revenue assigned by federal legislation for the undertaking of such functions. The Republic's Ministry of Finance is responsible for the implementation of the Republic's budget and the management of budgetary funds.

Pursuant to the Budget Code, the deficit of any region of the Russian Federation for any year must not exceed 15 per cent. of the amount of revenues of the budget of this region without taking into account any financial aid from the federal budget. The maximum limit of state debt of any region of the Russian Federation, or municipal debt of any municipality cannot exceed the amount of revenues of the respective budget less the amount of financial aid from the budgets of higher levels of the Russian budgetary system.

Budget deficit

According to the Ministry of Finance of the Republic as at 1 January 2016, the Republic's consolidated budget, which includes both regional and municipal levels, showed a deficit amounting to almost RUB 6.5 billion. Budget income in 2015 was RUB 242.5 billion, comprised largely of income and profit taxes. Budget expenses in 2015 were RUB 248.9 billion.

Indebtedness of the Republic

Under the Budget Code, subjects of the Russian Federation are empowered to borrow money for the purposes of funding a budget deficit. Subjects are also authorised to issue guarantees in relation to third parties obligations. Borrowings made by subjects and the guarantees issued by them constitute their "state debt". The matters relating to the incurrence, servicing and redemption of state debt are governed in principle by the Budget Code.

The federal Ministry of Finance has historically been the federal body in charge of supervising the borrowing activities of the subjects. Since March 2004, the task of supervising and controlling budgetary matters has been entrusted to the federal Service of Finance and Budget Supervision, which is controlled by the federal Ministry of Finance. One of the functions of the federal Ministry of Finance is to register bond issues by the subjects and to ensure that all applicable legal requirements with respect to such borrowings are fulfilled, including limits on levels of internal and external debt and funds spent on debt

service and debt repayment. General authorisation of the borrowings is within the jurisdiction of the legislative bodies of the respective subjects. At present, the vast majority of the Republics debt financing is raised through the Ministry of Finance of the Republic. The total debt of the Republic amounted to RUB 95.1 billion as at 1 October 2016 (in the absence of foreign debt).

The Cabinet is the executive body of the Republic that is responsible for managing the state debt. The Ministry of Finance of the Republic (which is subordinate to the Cabinet) is authorised to make borrowings and to issue guarantees on behalf of the Republic. The Ministry of Finance of the Republic also maintains and administers the State Debt Book of the Republic.

The amount and structure of the Republic's borrowings are outlined in the Republic's Borrowing Programme, which is an appendix to the Republic's budget and is approved by the State Council. Within the limits stipulated by the annual Borrowing Programme, the Cabinet is authorised to make borrowings in the form of loans or bond issuances through the Ministry of Finance of the Republic.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The Group's Interim Condensed Consolidated Financial Statements as at and for the six months ended 30 June 2016	F-2
Report on Review	F-4
Interim Condensed Consolidated Statement of Financial Position	F-6
Interim Condensed Consolidated Statement of Comprehensive Income	F-7
Interim Condensed Consolidated Statement of Changes in Equity	F-8
Interim Condensed Consolidated Statement of Cash Flows	F-9
Notes to the Interim Consolidated Condensed Financial Statements	F-10
The Group's Audited Consolidated Financial Statements as at and for the year ended 31 December 2015	F-54
Independent Auditor's Report	F-56
Consolidated Statement of Financial Position	F-57
Consolidated Statement of Comprehensive Income	F-58
Consolidated Statement of Changes in Equity	F-59
Consolidated Statement of Cash Flows	F-60
Notes to the Consolidated Financial Statements	F-61
The Group's Audited Consolidated Financial Statements as at and for the year ended 31 December 2014	F-147
Independent Auditor's Report	F-149
Consolidated Statement of Financial Position	F-151
Consolidated Statement of Comprehensive Income	F-152
Consolidated Statement of Changes in Equity	F-153
Consolidated Statement of Cash Flows	F-154
Notes to the Consolidated Financial Statements	F-155

Interim condensed consolidated financial statements
PJSC "Tatfondbank" and its subsidiaries
for the six months ended 30 June 2016
with review report

Interim condensed consolidated financial statements
PJSC “Tatfondbank” and its subsidiaries

Contents	Page
Report on review of the interim condensed consolidated financial statements	3
Appendices	
Interim condensed consolidated statement of financial position	5
Interim condensed consolidated statement of comprehensive income	6
Interim condensed consolidated statement of changes in equity	7
Interim condensed consolidated statement of cash flows	8
Notes to the interim condensed consolidated financial statements	
1. Introduction	9
2. Operating environment of the Group	10
3. Summary of accounting policies	11
4. Adjustments in the financial statements	15
5. Business combination	17
6. Cash and cash equivalents	19
7. Mandatory cash balances with the Central Bank of the Russian Federation and due from other banks	19
8. Financial instruments at fair value through profit or loss	20
9. Derivative financial instruments	22
10. Securities lent	23
11. Loans to customers	23
12. Investments available for sale	25
13. Due to banks	26
14. Customer accounts	26
15. Debt securities issued	27
16. Eurobonds issued	29
17. Subordinated borrowings and Eurobonds	29
18. Deposit received from SC “Deposit Insurance Agency”	30
19. Share capital	30
20. Interest income and expense	31
21. Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	32
22. Allowance for impairment	32
23. Income tax expense	33
24. Segment analysis	33
25. Liquidity risk	36
26. Commitments and contingencies	39
27. Fair value measurement	42
28. Related party transactions	48
29. Events after the end of the interim period	52

Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors of
PJSC "Tatfondbank"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC "Tatfondbank" and its subsidiaries (the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2016 and the related interim condensed consolidated statements of comprehensive income for the three and six-month periods then ended, statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management of the Group is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of matter

We draw attention to the fact that, as disclosed in Note 4 to the interim condensed consolidated financial statements, the interim condensed consolidated financial statements of PJSC "Tatfondbank" and its subsidiaries as at 30 June 2016 and for the six-month period then ended were revised on 14 October 2016. Our conclusion is not qualified in respect of this matter.

Ernst & Young LLC


14 October 2016

Moscow, Russia

PJSC "Tatfondbank"
Interim condensed consolidated statement of financial position
As at 30 June 2016
(in thousands of Russian rubles)

	Notes	30 June 2016 (unaudited)	31 December 2015
Assets			
Cash and cash equivalents	6	13,333,099	13,579,727
Mandatory cash balances with the Central Bank of the Russian Federation	7	1,704,518	891,824
Due from banks	7	1,768,513	1,386,992
Financial instruments at fair value through profit or loss:			
- Held by the Group	8	22,143,948	19,715,034
- Pledged as collateral under sale and repurchase agreements	8	9,186,764	8,618,303
Securities lent	10	1,475,188	656,365
Loans to customers	11	129,414,342	121,281,708
Investments available for sale:			
- Held by the Group	12	6,230,867	6,705,716
- Pledged as collateral under sale and repurchase agreements	12	644,187	3,012,640
Investment property		3,877,392	1,172,106
Property and equipment		2,362,686	1,309,606
Other assets		7,544,395	3,172,326
Total assets		199,685,899	181,502,347
Liabilities			
Due to the Central Bank of the Russian Federation	13	14,572,327	16,264,946
Due to banks	13	11,064,845	16,283,510
Customer accounts	14	136,309,688	111,975,885
Debt securities issued	15	15,776,244	16,014,933
Eurobonds issued	16	974,489	1,027,256
Amounts received from DIA	18	3,108,644	—
Other liabilities		631,360	556,371
Deferred tax liabilities		869,861	950,119
Subordinated borrowings and Eurobonds	17	9,865,828	10,309,218
Obligation to repurchase interest in a subsidiary		114,153	114,153
Non-controlling interests		1,757,105	1,921,239
Total liabilities		195,044,544	175,417,630
Equity			
Share capital	19	14,934,618	14,934,618
Revaluation reserve for investments available for sale		98,297	(178,158)
Revaluation reserve for buildings		189,767	191,914
Accumulated deficit		(10,726,216)	(9,030,709)
Total equity attributable to equity holders of the Bank		4,496,466	5,917,665
Non-controlling interests		144,889	167,052
Total equity		4,641,355	6,084,717
Total liabilities and equity		199,685,899	181,502,347

Approved for issue and signed on behalf of the Management Board on 14 October 2016.


R.I. Nasyrov
First Deputy Chairman of the Management Board


S.G. Korchagina
Chief Accountant



The accompanying selected notes are an integral part of these interim condensed consolidated financial statements.

PJSC “Tatfondbank”
Interim condensed consolidated statement of comprehensive income
For the six months ended 30 June 2016
(in thousands of Russian rubles)

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Interest income	20	11,692,243	9,252,652	5,852,390	4,644,333
Interest expense	20	(8,709,901)	(9,107,711)	(4,567,794)	(4,600,128)
Net interest income		2,982,342	144,941	1,284,596	44,205
Fee and commission income		826,848	755,830	365,148	380,250
Fee and commission expense		(230,814)	(158,021)	(128,757)	(113,904)
Net fee and commission income		596,034	597,809	236,391	266,346
Net (losses)/gains from financial instruments at fair value through profit or loss		(398,051)	758,943	(552,695)	379,471
Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	21	(339,043)	(169,261)	(11,564)	(84,630)
Net gains/(losses) from investments available for sale		(240,562)	(19,976)	(211,769)	(9,988)
Net gains/(losses) from investment property		1,966	(20,195)	3,165	(10,097)
Other operating income		98,868	28,947	36,770	14,473
Allowance for impairment	22	(2,410,578)	(1,957,336)	(673,362)	(1,434,506)
Impairment of goodwill	5	(1,846,072)	—	(1,846,072)	—
Administrative and other operating expenses		(2,010,065)	(1,637,096)	(1,105,573)	(818,548)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company and mutual funds		164,134	(167,193)	145,999	(83,596)
Loss before tax		(3,401,027)	(2,440,417)	(2,694,114)	(1,736,870)
Income tax benefit/(expense)	23	131,209	(142,894)	117,941	(71,447)
Loss for the period		(3,269,818)	(2,583,311)	(2,576,173)	(1,808,317)
Attributable to:					
- Equity holders of the Bank		(3,197,654)	(2,590,497)	(2,510,090)	(1,811,910)
- Non-controlling interests		(72,164)	7,186	(66,083)	3593
Other comprehensive income attributable to equity holders of the Bank					
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</i>					
Investments available for sale, including:					
- Net change in fair value		21,170	(6,732)	(53,689)	(3,366)
- Net change in fair value transferred to profit or loss		324,399	43,011	324,399	21,505
Income tax effect		(69,114)	(7,255)	(54,142)	(3,627)
Other comprehensive income attributable to equity holders of the Bank, net of tax		276,455	29,024	216,568	14,512
Total comprehensive loss		(2,993,363)	(2,554,287)	(2,359,605)	(1,793,805)
Attributable to:					
- Equity holders of the Bank		(2,921,199)	(2,561,473)	(2,293,522)	(1,797,398)
- Non-controlling interests		(72,164)	7,186	(66,083)	3,593

The accompanying selected notes are an integral part of these interim condensed consolidated financial statements.

PJSC “Tatfondbank”
Interim condensed consolidated statement of changes in equity
For the six months ended 30 June 2016
(in thousands of Russian rubles)

	Attributable to equity holders of the Bank					Non-controlling interests	Total equity
	Share capital	Revaluation reserve for investments available for sale	Revaluation reserve for buildings	Accumulated deficit	Total		
Balance at 1 January 2015	13,111,618	(182,700)	196,208	(3,029,524)	10,095,602	164,610	10,260,212
Loss before other comprehensive income	–	–	–	(2,590,497)	(2,590,497)	7,186	(2,583,311)
Other comprehensive income, net of income tax	–	29,024	–	–	29,024	–	29,024
Total comprehensive loss	–	29,024	–	(2,590,497)	(2,561,473)	7,186	(2,554,287)
Amortization of revaluation reserve	–	–	(2,147)	2,147	–	–	–
Balance at 30 June 2015 (unaudited)	13,111,618	(153,676)	194,061	(5,617,874)	7,534,129	171,796	7,705,925
Balance at 1 January 2016	14,934,618	(178,158)	191,914	(9,030,709)	5,917,665	167,052	6,084,717
Loss before other comprehensive income	–	–	–	(3,197,654)	(3,197,654)	(72,164)	(3,269,818)
Other comprehensive income, net of income tax	–	276,455	–	–	276,455	–	276,455
Total comprehensive loss	–	276,455	–	(3,197,654)	(2,921,199)	(72,164)	(2,993,363)
Funds received from equity holders (Note 19)	–	–	–	1,500,000	1,500,000	–	1,500,000
Amortization of revaluation reserve	–	–	(2,147)	2,147	–	–	–
Changes in non-controlling interests	–	–	–	–	–	50,001	50,001
Balance at 30 June 2016 (unaudited)	14,934,618	98,297	189,767	(10,726,216)	4,496,466	144,889	4,641,355

The accompanying selected notes are an integral part of these interim condensed consolidated financial statements.

PJSC "Tatfondbank"
Interim condensed consolidated statement of cash flows
For the six months ended 30 June 2016
(in thousands of Russian rubles)

		For the six months ended 30 June (unaudited)	
	Notes	2016	2015
Cash flows from operating activities			
Interest received		11,276,946	8,738,896
Interest paid, excluding interest paid on debt securities issued		(7,715,297)	(7,212,935)
Fees and commissions received		827,008	756,258
Fees and commissions paid		(267,987)	(176,624)
Net (payments) receipts from financial instruments at fair value through profit or loss		(80,633)	1,177,824
Net (payments) from foreign currencies		(2,919,654)	(1,550,312)
Net receipts from derivative financial instruments		172,015	623,687
Net receipts (payments) from precious metals		12,614	(6,648)
Other operating receipts		55,169	110
Staff costs		(923,172)	(865,477)
Other administrative and operating payments		(1,386,454)	(1,055,250)
Income tax paid		(17,619)	(8,135)
Cash flows from operating activities before changes in operating assets and liabilities		(967,064)	421,394
Changes in operating assets and liabilities			
Net decrease (increase) in mandatory cash balances with the Central Bank of the Russian Federation		45,164	(15,966)
Net increase in due from banks		(349,214)	(892,638)
Net (increase) decrease in financial instruments at fair value through profit or loss		(4,986,438)	3,203,589
Net increase in loans to customers		(2,883,389)	(8,391,290)
Net (increase) decrease in other assets		(3,374,616)	1,938,533
Net (decrease) increase in due to the Central Bank of the Russian Federation		(1,685,355)	4,312,741
Net increase in due to banks		8,910,753	2,061,510
Net increase in customer accounts		130,218	7,978,589
Net (decrease) increase in promissory notes issued		(1,301,388)	939,022
Net increase (decrease) in other liabilities		3,737	(763,846)
Net cash (used in) from operating activities		(6,457,592)	10,791,638
Cash flows from investing activities			
Acquisition of investments available for sale		(1,762,511)	(5,021,947)
Proceeds from sale of investments available for sale		5,032,316	566,100
Acquisition of investment property		(473)	(18,281)
Proceeds from sale of investment property		1,122	296,321
Acquisition of property and equipment		(181,849)	(35,732)
Proceeds from sale of property and equipment		16,902	13,608
Dividends received		1	42
Acquisition of subsidiaries, net of cash paid	5	1,929,860	–
Net cash from (used in) investing activities		5,035,368	(4,199,889)
Cash flows from financing activities			
Proceeds from issue of bonds		5,958,863	6,679,298
Repayment/repurchase of bonds		(4,990,085)	(6,676,559)
Proceeds from subordinated borrowings	17	100,000	–
Amounts due to equity holders	19	1,500,000	–
Interest paid on debt securities issued		(1,301,616)	(1,169,804)
Net cash from (used in) financing activities		1,267,162	(1,167,065)
Effect of exchange rate changes on cash and cash equivalents		(91,566)	(300,409)
Net (decrease) increase in cash and cash equivalents		(246,628)	5,124,275
Cash and cash equivalents at the beginning of the period	6	13,579,727	16,412,809
Cash and cash equivalents at the end of the period	6	13,333,099	21,537,084

The accompanying selected notes are an integral part of these interim condensed consolidated financial statements.

1. Introduction

These interim condensed consolidated financial statements of Public Joint Stock Company “Tatfondbank” (the “Bank”) and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2016 are prepared in accordance with International Financial Reporting Standard 34 *Interim Financial Reporting* (“IAS 34”).

The Bank is a public joint stock company incorporated in accordance with Russian regulations in the Russian Federation (“RF”).

The Bank accepts deposits from the public and extends credits, transfers payments in the Russian Federation, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (“CBR”) since 1994. The Bank participates in the State deposit insurance scheme.

The Bank is licensed by the Central Bank of Russia for trading in securities.

As at 30 June 2016, the Bank has 5 branches, 32 operational offices, 55 additional offices and 1 operational cash desk in the Russian Federation (31 December 2015: 5 branches, 35 operational offices, 58 additional offices and 1 operational cash desk).

The Bank’s registered address is Chernyshevskogo Street, 43/2, Kazan, Republic of Tatarstan (RT), Russian Federation, 420111.

As at 30 June 2016 and 31 December 2015, the corporate subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			30 June 2016 (unaudited)	31 December 2015
CJSC “TFB Aktiv”	Securities trading and financial intermediation	RF, Kazan	100.00%	100.00%
IC “TFB-Finance” LLC	Fiduciary asset management	RF, Kazan	68.00%	68.00%
PJSC NCB “Radiotechbank”	Banking	RF, Nizhny Novgorod	29.85%	29.85%
TFB Finance DAC	Eurobond issue	Ireland, Dublin	–	–
CJSC “Mortgage Agent TFB1”	Finance	RF, Moscow	9.99%	9.99%
LLC “Gazovik”	Agriculture	RF, Bogorodskoe	100.00%	100.00%
JSC “Eidos-Dnaform”	Production of medical devices	RF, Kazan	37.88%	–
JSC “Bank “Sovetsky”	Banking	RF, St. Petersburg	99.999%	–

On 28 June 2013, the Bank received offers from equity holders of PJSC NCB “Radiotechbank” to purchase shares in PJSC NCB “Radiotechbank” from these entities before 28 June 2016 and to obtain a controlling interest. On 29 June 2016, the Bank received newly issued offers for a three-year period, based on which the Bank retains control over PJSC NCB “Radiotechbank” till 28 June 2019. Besides, the Bank has certain powers in the Board of PJSC NCB “Radiotechbank”. As a result, at 30 June 2016, PJSC NCB “Radiotechbank” has been included in these interim condensed consolidated financial statements as a fully consolidated subsidiary.

TFB Finance DAC is a structured entity established to raise borrowings in the international securities markets. The Group consolidates TFB Finance DAC using the full consolidation method.

CJSC “Mortgage Agent TFB1” is a structured entity of the Bank incorporated for the purpose of securitizing the Bank’s mortgage loans. The company was formed in 2014.

The Group consolidates CJSC “Mortgage Agent TFB1” using the full consolidation method.

On 27 January 2016, Closed-end Private Equity Mutual Fund “Professional” acquired 100% shares in JSC “Eidos-Dnaform”. As a result of an additional issue of shares in JSC “Eidos-Dnaform”, the interest held by Closed-end Private Equity Mutual Fund “Professional” decreased to 50% + 1 share (Note 5). In partnership with RIKEN Institute, JSC “Eidos-Dnaform” produces domestic equipment and reagents for ultrafast genetic testing. As at 30 June 2016, the Group’s interest in Closed-end Private Equity Mutual Fund “Professional” and JSC “Eidos-Dnaform” was 75.76% and 37.88%, respectively.

By a decision of the Board of Directors of the Central Bank of Russia, PJSC “Tatfondbank” was appointed a turnaround manager of JSC “Bank “Sovetsky”. On 16 March 2016, PJSC “Tatfondbank” acquired a 99.999% common equity stock of JSC “Bank “Sovetsky”. The shares were purchased in accordance with the bank’s rehabilitation plan (Note 5).

1. Introduction (continued)

The Group holds controlling stakes in certain closed-end mutual investment funds. These funds are unincorporated subsidiaries. The assets of the funds comprise investments available for sale, loans, investment property and other assets. Assets held by these funds are included in these interim condensed consolidated financial statements.

As at 30 June 2016 and 31 December 2015, the unincorporated subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			30 June 2016 (unaudited)	31 December 2015
Closed-end Real Estate Mutual Investment Fund "TFB-Activ"	Investment	RF, Kazan	100.00%	100.00%
Closed-end Combined Mutual Fund "TFB-Dalnovidny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end Private Equity Mutual Fund "Professional"	Investment	RF, Kazan	75.76%	75.76%
Closed-end Real Estate Mutual Investment Fund "Priozerny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end Real Estate Mutual Investment Fund "TFB-Investitziionny"	Investment	RF, Kazan	93.68%	93.68%
Closed-end Bank Loan Mutual Fund "Tekhnologii Investitziy" (former Closed-end Bank Loan Mutual Fund "Ak Bars Creditny Capital")	Investment	RF, Kazan	62.76%	62.76%

2. Operating environment of the Group

The Group operates primarily in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

The accompanying interim condensed consolidated financial statements reflect management's assessment of the potential impact of the existing business environment on the performance and financial position of the Group. The future business environment may differ from management's assessment.

Deteriorating operating conditions for borrowers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of loan impairment allowance is based on management's assessment of such loans at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs to obtain and sell the collateral.

The Russian market for many types of collateral, especially real estate, has been affected by the volatility in global financial markets and general economic downturn resulting in a decreased level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value used in estimating impairment allowances.

The fair value of investments quoted in active markets is based on current bid prices (financial assets) or ask prices (financial liabilities). As a result of the recent volatility in financial markets, for some financial instruments there are no more regular transactions on an arm's length basis, therefore, management believes that some financial instruments are no longer quoted in an active market. If there is no active market for financial instruments, the Group determines fair value using different valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The objective of the valuation technique is to determine what the transaction price would have been on the valuation date in an arm's length exchange motivated by normal business considerations. Valuation models reflect current market conditions at the valuation date which may not be representative of market conditions either before or after the valuation date. As at the reporting date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

2. Operating environment of the Group (continued)

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets and economic uncertainties. Management believes it is taking all appropriate measures to support the sustainability and growth of business in the current circumstances.

In the first half of 2016, the Russian economy developed against subdued growth in the global markets and sanctions imposed on Russia by several countries in 2014. These circumstances predetermined a negative effect of the foreign economic situation on the social and economic development of Russia during this period and sustained crisis in the Russian economy, which resulted, in particular, in the GDP decrease. According to the Ministry of Economic Development of the Russian Federation, the growth in manufacturing, transportation and agricultural sectors has had a favorable effect on the economic development. The customer demand has continued to decrease while the investment demand has renewed its growth.

The options of external lending for Russian companies and banks have still been limited due to foreign financial sanctions although active fund raising was noticed. The first half of the year demonstrated better oil price environment while world prices on other types of raw materials exported by Russia mainly remained stable.

In the first half of 2016, the inflation slowed down, so starting from 14 June 2016, the Bank of Russia made a decision to decrease the key rate from 11% to 10.5% per annum. Interest rates on credit transactions of the banking sector were close to the level of 2015 and mainly decreased on deposit operations.

During the first half of 2016, USD and EUR rates demonstrated a downward trend. As at 31 December 2015 and 30 June 2016, the USD exchange rate set up by the CBR was RUB 72.8827 and RUB 64.2575 to 1 USD, respectively. Similarly, as at 31 December 2015 and 30 June 2016, the EUR exchange rate was RUB 79.6972 and RUB 71.2102 to 1 EUR, respectively.

Thus, in the first half of 2016, the economic environment where the Bank operates is characterized by the opposing trends that, in particular, is illustrative for the Russian economy on a whole, experiencing a downturn in the current cycle of its development. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3. Summary of accounting policies

These interim condensed consolidated financial statements for the six month-period ended 30 June 2016 have been prepared in accordance with International Financial Reporting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations noted below. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree, that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, either at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components of the non-controlling interest are measured at acquisition date fair value. Acquisition-related costs are expensed.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes analysis of the need to separate embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

3. Summary of accounting policies (continued)

Any contingent consideration to be transferred by the acquirer should be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the presentation currency of the Group is the national currency of the Russian Federation, Russian ruble ("RUB").

As at 30 June 2016, the official rate of exchange used for translating foreign currency balances was RUB 64.2575 to USD 1 and RUB 71.2102 to EUR 1 (31 December 2015: RUB 72.8827 to USD 1 and RUB 79.6972 to EUR 1).

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting 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 for making judgments 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 may ultimately differ from these estimates.

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

Significant accounting judgments and estimates used in preparing these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

Management prepared these interim condensed consolidated financial statements on a going concern basis.

In making this judgment, management considered the financial position, current intentions, profitability of operations, access to financial resources and analyzed the impact of the financial crisis on future operations of the Group.

Changes in accounting policies

The nature and the effect of the changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material effect on the annual consolidated financial statements or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to government grants related to bearer plants. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

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

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

4. Adjustments in the financial statements

On 29 August 2016, the Group's management approved and issued the IFRS interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2016. Subsequently, the interim condensed consolidated financial statements of the Group were revised and authorized for re-issue by the Group's management on 14 October 2016 due to the adjustments made to record the following transactions in the consolidated financial statements.

In October 2016, the Group's management determined that as at 30 June 2016 and 31 December 2015 the Group incorrectly recorded a deferred tax liability for the available-for-sale shares of a Russian company purchased in 2015 from an unrelated company, which also had an impact on the accrual of deferred income tax expenses for the three-month period ended 30 June 2016. In addition, gains from the revaluation of these available-for-sale shares, which were received and recorded in 2015 within other comprehensive income, must be recorded within profit or loss for the period, as the fair value at initial recognition of the shares exceeded the transaction price. The Group made the respective changes in the consolidated statement of financial position as at 30 June 2016 and 31 December 2015.

In October 2016, the Bank's management determined that losses which were incurred by the Group in 2015 from the purchase of shares in a Russian company from a shareholder of the Bank at a price exceeding the fair value and which were previously recorded in other comprehensive income within revaluation reserve for investments available for sale must be treated as payments to shareholders recorded in the consolidated statement of changes in equity.

All of the above events occurred in the second half of 2015 and, consequently, had no impact on the interim condensed consolidated statements of comprehensive income for the six-month and three month periods ended 30 June 2015 and the statements of cash flows for the six-month periods ended 30 June 2016 and 2015.

The total effect of changes on the consolidated statement of financial position as at 30 June 2016 is presented below:

	<i>As previously reported</i>	<i>Effect of adjustment</i>	<i>Restated</i>
Deferred tax liabilities	684,779	185,082	869,861
Total liabilities	194,859,462	185,082	195,044,544
Revaluation reserve for investments available for sale	696,610	(598,313)	98,297
Accumulated deficit	(11,139,447)	413,231	(10,726,216)
Total equity attributable to the equity holders of the Bank	4,681,548	(185,082)	4,496,466
Total equity	4,826,437	(185,082)	4,641,355

4. Adjustments in the financial statements (continued)

The total effect of changes on the consolidated statement of financial position as at 31 December 2015 is presented below:

	<i>As previously reported</i>	<i>Effect of adjustment</i>	<i>Restated</i>
Deferred tax liabilities	768,479	181,640	950,119
Total liabilities	175,235,990	181,640	175,417,630
Revaluation reserve for investments available for sale	420,155	(598,313)	(178,158)
Accumulated deficit	(9,447,382)	416,673	(9,030,709)
Total equity attributable to the equity holders of the Bank	6,099,305	(181,640)	5,917,665
Total equity	6,266,357	(181,640)	6,084,717

The total effect on the interim condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2016 is presented below:

	<i>As previously reported</i>	<i>Effect of adjustment</i>	<i>Restated</i>
Income tax benefit/(expense)	134,651	(3,442)	131,209
Loss for the period	(3,266,376)	(3,442)	(3,269,818)
Attributable to:			
- Equity holders of the Bank	(3,194,212)	(3,442)	(3,197,654)
Total comprehensive loss	(2,989,921)	(3,442)	(2,993,363)
Attributable to:			
- Equity holders of the Bank	(2,917,757)	(3,442)	(2,921,199)

The total effect on the interim condensed consolidated statement of comprehensive income for the three-month period ended 30 June 2016 is presented below:

	<i>As previously reported</i>	<i>Effect of adjustment</i>	<i>Restated</i>
Income tax benefit/(expense)	121,383	(3,442)	117,941
Loss for the period	(2,572,731)	(3,442)	(2,576,173)
Attributable to:			
- Equity holders of the Bank	(2,506,648)	(3,442)	(2,510,090)
Total comprehensive loss	(2,356,163)	(3,442)	(2,359,605)
Attributable to:			
- Equity holders of the Bank	(2,290,080)	(3,442)	(2,293,522)

4. Adjustments in the financial statements (continued)

The total effect on the consolidated statement of changes in equity for the six-month period ended 30 June 2016 is presented below:

	<i>As previously reported</i>	<i>Effect of adjustment</i>	<i>Restated</i>
Balance at 1 January 2016	6,266,357	(181,640)	6,084,717
Loss before other comprehensive income	(3,266,376)	(3,442)	(3,269,818)
Total comprehensive loss	(2,989,921)	(3,442)	(2,993,363)
Balance at 30 June 2016 (unaudited)	4,826,437	(185,082)	4,641,355

5. Business combination

On 27 January 2016, Closed-end Private Equity Mutual Fund “Professional” acquired 100% shares in JSC “Eidos-Dnaform” for the consideration of RUB 100 thousand. As a result of an additional issue of shares, the interest of Closed-end Private Equity Mutual Fund “Professional” in JSC “Eidos-Dnaform” decreased to 50% + 1 share. JSC “Eidos-Dnaform” is mainly engaged in production of equipment and reagents for ultrafast genetic testing. These shares were purchased with the purpose of involvement in a socially important project.

As at 30 June 2016, PJSC NCB “Eidos-Dnaform” has been included in these interim condensed consolidated financial statements as a fully consolidated subsidiary.

The provisional fair value of identifiable assets and liabilities at the date of acquisition is presented in the following table.

Cash and cash equivalents	1,386
Other assets	65,359
	66,745
Loans received	(66,860)
Other liabilities	(47)
	(66,907)
Total net identifiable assets	(162)
Consideration transferred on acquisition	100

On 16 March 2016, PJSC “Tatfondbank” acquired a 99.999% common equity stock of JSC “Bank “Sovetsky”. The shares were purchased in accordance with the bank’s rehabilitation plan to expand its presence. On 24 April 2016, the control over JSC “Bank “Sovetsky” was transferred from State Corporation “Deposit Insurance Agency” (“DIA”) to PJSC “Tatfondbank”.

As at 30 June 2016, JSC “Bank “Sovetsky” has been included in these interim condensed consolidated financial statements as a fully consolidated subsidiary.

5. Business combination (continued)

The provisional fair value of identifiable assets and liabilities at the date of acquisition is presented in the following table.

Cash and cash equivalents	1,928,574
Mandatory cash balances with the Central Bank of the Russian Federation	857,858
Due from banks	51,998
Financial instruments at fair value through profit or loss	3,527
Loans to customers	7,178,650
Investment property	2,711,700
Property and equipment	1,004,294
Other assets	130,056
	13,866,657
Due to banks	(7,927)
Customer accounts	(26,690,746)
Amounts received from DIA	(3,051,085)
Other liabilities	(68,911)
	(29,818,669)
Total net identifiable assets	(15,952,012)
Fair value of the previously held equity interests	—
Derecognition of previous relations	14,106,202
Goodwill arising on acquisition	1,845,810
Consideration transferred on acquisition	—
As at the date of control transfer, the fair value of the previously held equity interests (99.999% ordinary shares in JSC "Bank "Sovetsky") was fully impaired.	
Transactions representing previous relations between the participants of the Group within amounts due to banks with the fair value of RUB 14,106,202 thousand at the acquisition date were eliminated in the process of accounting for the business combination. The fair values of such assets approximate their carrying amounts. The assets received were eliminated from the identifiable assets of JSC "Bank "Sovetsky" and the compensation transferred on acquisition was adjusted to the fair value of these assets.	
The fair value of loans to customers as of the date of acquisition amounted to RUB 7,178,650 thousand. The contracted amount of loans to customers before allowance for impairment totaled RUB 20,641,608 thousand. The best estimate of the contractual cash flows not expected to be collected was RUB 19,624,659 thousand at the acquisition date.	
The movements in goodwill were as follows:	
Cost as at 31 December 2015	—
Acquisition through business combination	1,846,072
Impairment	(1,846,072)
Net book value at 30 June 2016	—

6. Cash and cash equivalents

	30 June 2016 (unaudited)	31 December 2015
Cash on hand	5,155,999	4,507,700
Nostro accounts with other banks and overnight deposits	4,282,496	858,615
Brokerage accounts	3,325,875	3,155,884
Nostro accounts and overnight deposits with the Central Bank of the Russian Federation	369,284	4,990,732
Settlement accounts with trading systems	99,445	66,796
Short-term deposits with other banks	100,000	–
Total cash and cash equivalents	13,333,099	13,579,727

As at 30 June 2016, the Group had three counterparties whose balances individually exceed 10% of total cash and cash equivalents (31 December 2015: one counterparty). The total value of the counterparties' balances as at 30 June 2016 is RUB 6,278,735 thousand (31 December 2015: RUB 2,668,062 thousand).

As at 30 June 2016, cash and cash equivalents comprise an overnight deposit in the amount of RUB 105,000 thousand placed with one counterparty (related party). At the same time, Loro accounts include balances in the amount of RUB 105,000 thousand borrowed from this counterparty (Note 13).

Analysis by credit quality of correspondent accounts with other banks and short-term deposits with other banks is as follows:

	30 June 2016 (unaudited)	31 December 2015
Nostro accounts with other banks and overnight deposits	4,282,496	858,615
- Top 20 Russian banks	2,295,267	271,837
- Banks located in the Republic of Tatarstan	1,666,680	206,068
- Other Russian banks	171,280	163,402
- Large OECD banks	149,269	217,308
Short-term deposits with other banks	100,000	–
- Banks located in the Republic of Tatarstan	100,000	–
Total cash and cash equivalents held at other banks	4,382,496	858,615

7. Mandatory cash balances with the Central Bank of the Russian Federation and due from other banks

Credit institutions are required to maintain obligatory reserves with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by the credit institution. Russian law restricts the withdrawability of such reserves by the Bank. As at 30 June 2016, the Group's total mandatory cash balances with the Central Bank of the Russian Federation amounted to RUB 1,704,518 thousand (31 December 2015: RUB 891,824 thousand).

Accounts and deposits with banks comprise:

	30 June 2016 (unaudited)	31 December 2015
Purchase and resale agreements ("reverse repo")	927,993	927,941
Due from banks	1,069,757	705,538
Total due from banks before allowance for impairment	1,997,750	1,633,479
Allowance for impairment	(229,237)	(246,487)
Total due from banks before allowance for impairment	1,768,513	1,386,992

7. Mandatory cash balances with the Central Bank of the Russian Federation and due from other banks (continued)

As at 30 June 2016, the Group has three banks whose balances individually exceed 10% of total due from banks (31 December 2015: two banks). The total value of balances due from these credit institutions as at 30 June 2016 is RUB 1,744,382 thousand (31 December 2015: RUB 1,384,637 thousand).

As at 30 June 2016, claims under repurchase agreements in the amount of RUB 927,993 thousand (31 December 2015: RUB 927,941 thousand) were effectively collateralized by securities with the fair value of RUB 1,036,861 thousand (31 December 2015: RUB 974,186 thousand) (Note 26).

Analysis of movements in allowances for impairment of the amounts due from other banks:

	2016	2015
Balance at the beginning of the period – 1 January	246,487	–
Reversal of allowances for impairment	(17,250)	–
Balance at the end of the period – 30 June (unaudited)	229,237	–

Analysis of amounts due from banks by credit quality is as follows:

	30 June 2016 (unaudited)	31 December 2015
Purchase and resale agreements ("reverse repo")	927,993	927,941
Due from other banks		
- Banks located in the Republic of Tatarstan	830,390	398,605
- Other Russian banks	239,287	247,761
- Top 20 Russian banks	80	59,172
Total due from banks before allowance for impairment	1,997,750	1,633,479
Allowance for impairment	(229,237)	(246,487)
Total due from banks before allowance for impairment	1,768,513	1,386,992

8. Financial instruments at fair value through profit or loss

	30 June 2016 (unaudited)	31 December 2015
Financial instruments held for trading	22,372,167	19,161,850
Financial instruments designated as at fair value through profit or loss	8,958,545	9,171,487
Total financial instruments at fair value through profit or loss	31,330,712	28,333,337

8. Financial instruments at fair value through profit or loss (continued)

Financial instruments held for trading

	30 June 2016 (unaudited)	31 December 2015
Held by the Group		
Corporate bonds	8,065,697	4,770,244
Corporate Eurobonds	5,030,468	5,747,688
Russian Government Federal Bonds (OFZ)	88,926	22,857
Total debt securities	13,185,091	10,540,789
Corporate shares	312	2,758
Total equity securities	312	2,758
Total financial instruments held for trading that are held by the Group	13,185,403	10,543,547
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	8,592,249	8,033,633
Russian Government Federal Bonds (OFZ)	594,515	584,670
Total debt securities	9,186,764	8,618,303
Total financial instruments held for trading pledged as collateral under sale and repurchase agreements	9,186,764	8,618,303
Total financial instruments held for trading	22,372,167	19,161,850

Financial instruments held for trading are represented by debt and equity securities.

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies and banks. As at 30 June 2016, these bonds have maturity dates from July 2016 to October 2018 (31 December 2015: from January 2016 to August 2018) and coupon rates from 11% to 16% p.a. (31 December 2015: from 2% to 18% p.a.).

Corporate Eurobonds are interest-bearing securities denominated in euro and US dollars and issued by Russian companies and banks. As at 30 June 2016, these Eurobonds have maturity dates from February 2017 to March 2025 (31 December 2015: from February 2017 to June 2019) and coupon rates from 4% to 12% p.a. (31 December 2015: from 5% to 12% p.a.).

Russian Government Federal Bonds (OFZ) are government securities denominated in Russian rubles and US dollars and issued by the Ministry of Finance of the Russian Federation. As at 30 June 2015, OFZ have maturity dates from August 2016 to February 2036 (31 December 2015: from January 2016 to February 2036) and coupon rates from 6% to 13% p.a. (31 December 2015: from 6% to 8% p.a.).

Equity instruments are represented by shares in Russian companies (31 December 2015: shares in Russian companies).

Financial instruments held for trading pledged as collateral under sale and repurchase agreements can be sold or repledged by the counterparty in accordance with the contractual terms and established practice. As at 30 June 2016, sale and repurchase agreements mature in July 2016 (31 December 2015: January 2016). Related liabilities are recognized in the interim condensed consolidated statement of financial position in line "Due to banks" (Note 13) in the amount of RUB 9,266,225 thousand (31 December 2015: RUB 8,692,861 thousand) and in the line "Customer accounts" (Note 14) in the amount of RUB 394,386 thousand (31 December 2015: RUB 1,681,808 thousand).

As at 30 June 2016, the total fair value of corporate bonds and OFZ pledged as collateral under sale and repurchase agreements is RUB 9,621,113 thousand (31 December 2015: RUB 12,007,770 thousand), including bonds issued by the Group and repurchased by the Group's participants in the amount of RUB 434,349 thousand (31 December 2015: RUB 2,101,451 thousand and bonds received and repledged under sale and repurchase agreements in the amount of RUB 1,288,016 thousand) and eliminated for the purposes of these financial statements (Note 26).

8. Financial instruments at fair value through profit or loss (continued)

Financial instruments held for trading (continued)

As at 30 June 2016, OFZ with fair value of RUB 1,567,117 thousand received under the program of additional capitalization of the Bank (31 December 2015: nil) were pledged under sale and repurchase agreements with the Central Bank of the Russian Federation. These OFZ are not recorded in the interim condensed consolidated statement of financial position (Note 17). Related liabilities are recognized in the interim condensed consolidated statement of financial position in line "Due to banks" (Note 13) in the amount of RUB 1,561,168 thousand (31 December 2015: nil).

Financial instruments designated as at fair value through profit or loss

	30 June 2016 (unaudited)	31 December 2015
Equity securities		
Mutual fund units	8,958,545	9,171,487
Total equity securities	8,958,545	9,171,487
Total financial instruments designated as at fair value through profit or loss	8,958,545	9,171,487

Financial instruments designated as at fair value through profit or loss comprise mutual fund units, including units of one related party to the Group in the amount of RUB 7,790,770 thousand (31 December 2015: mutual fund units of two related parties to the Group in the amount of RUB 8,027,643 thousand) (Note 28).

9. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments recorded as other assets or other liabilities in the financial statements, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2016 (unaudited)			31 December 2015		
	Notional principal	Fair value Asset	Liability	Notional principal	Fair value Asset	Liability
Precious metals contracts						
Precious metals forwards	132,412	1,494	–	138,942	–	(199)
Foreign exchange contracts						
Foreign exchange forwards	20,917,707	1,570,466	(8,081)	13,954,084	50,831	(6,286)
Securities/stock index contracts						
Securities forwards	–	–	–	169,070	134	–
Total derivative assets/ liabilities	21,050,119	1,571,960	(8,081)	14,262,096	50,965	(6,485)

As at 30 June 2016 and 31 December 2015, the Group had positions in the following types of derivatives:

Forwards. Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

10. Securities lent

On 30 September 2015, the Group entered into an agreement on the lending of units in Closed-end Rental Mutual Fund "TFB-Rentnyi Investitsionny Fond" with a third party. The agreement with the counterparty stipulates that the loan is to be repaid until 28 September 2016 (31 December 2015: 20 May 2016). As at 30 June 2016, the fair value of the extended loan was RUB 1,475,188 thousand (31 December 2015: RUB 656,365 thousand).

11. Loans to customers

	30 June 2016 (unaudited)	31 December 2015
Loans to corporate entities	118,009,982	114,709,905
Corporate loans	109,393,851	102,287,896
Loans to small and medium enterprises (SME)	8,416,237	8,306,894
Purchase and resale agreements ("reverse repo")	199,894	4,115,115
Loans to individuals	28,340,754	24,867,164
Consumer loans	13,844,826	15,579,640
Mortgage loans	7,976,501	7,062,007
Car loans	6,519,427	2,225,517
Total loans to customers, gross	146,350,736	139,577,069
Allowance for loan impairment	(16,936,394)	(18,295,361)
Total loans to customers, net	129,414,342	121,281,708

Corporate entities are classified as SME based on their revenues and the number of employees. As at 30 June 2016, loans to customers in the total amount of up to RUB 200,000 thousand are usually loans to SME (31 December 2015: RUB 200,000 thousand).

As at 30 June 2016, loans to customers in the amount of RUB 199,894 thousand (31 December 2015: RUB 4,115,115 thousand) were effectively collateralized by securities purchased under a reverse repurchase agreement, with the fair value of RUB 204,616 thousand (31 December 2015: RUB 3,435,301 thousand) (Note 26). The Group may repledge the securities purchased under reverse repurchase agreements but is obliged to return the securities. Reverse repurchase agreements mature in July 2016 (31 December 2015: January 2016).

Movements in the allowance for loan impairment during the six months ended 30 June 2016 were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 31 December 2015	13,170,606	1,467,867	173,209	2,950,550	242,421	290,708	18,295,361
Allowances for impairment	(99,600)	535,468	(165,898)	1,166,669	293,391	(660)	1,729,370
Write-off of uncollectible loans	—	(309,151)	—	(786)	—	—	(309,937)
Assigned loans and loans sold to debt collectors	(28,527)	(207,765)	—	(2,365,376)	(166,878)	(9,854)	(2,778,400)
Balance at 30 June 2016 (unaudited)	13,042,479	1,486,419	7,311	1,751,057	368,934	280,194	16,936,394

11. Loans to customers (continued)

Movements in the allowance for loan impairment during the six months ended 30 June 2015 were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 31 December 2014	9,893,510	1,357,430	85,960	3,123,248	238,758	198,982	14,897,888
Allowances for impairment	480,061	413,384	7,616	937,073	56,822	62,366	1,957,322
Write-off of uncollectible loans	—	(1,779)	—	(13,850)	(102)	—	(15,731)
Assigned loans and loans sold to debt collectors	(409,282)	(200,732)	—	(687,519)	(50,490)	(12,410)	(1,360,433)
Balance at 30 June 2015 (unaudited)	9,964,289	1,568,303	93,576	3,358,952	244,988	248,938	15,479,046

The loan portfolio is structured by industries as follows:

	30 June 2016 (unaudited)		31 December 2015	
	Amount	%	Amount	%
Trade	41,196,271	29	43,098,903	31
Finance	28,641,176	20	29,193,446	21
Individuals	28,340,754	19	24,867,164	18
Real estate	14,018,507	10	13,478,079	10
Construction and manufacturing	11,575,778	8	9,399,799	7
Food industry	8,478,114	6	6,595,814	5
Agriculture	4,549,150	3	4,933,040	3
Light industry	2,689,833	2	2,270,407	1
Sports	2,106,621	1	2,107,018	1
Transport	608,821	—	731,362	1
Hospitality and catering	358,868	—	502,087	—
Leasing	252,149	—	283,250	—
Other	3,534,694	2	2,116,700	2
Total loans to customers, gross	146,350,736	100	139,577,069	100

As at 30 June 2016, the Group had 80 borrowers (31 December 2015: 74 borrowers) with the total amount of loans extended to each borrower exceeding RUB 500,000 thousand. The total aggregate amount of these loans was RUB 95,347,681 thousand (31 December 2015: RUB 89,540,670 thousand), or 65% of the gross loan portfolio (31 December 2015: 64%).

As at 30 June 2016, surety agreements from the Group's related parties for the amount of RUB 4,523,399 thousand (31 December 2015: RUB 10,527,109 thousand) and surety agreements from the minority shareholders were received on loans to customers in the amount of RUB 14,949,647 thousand (31 December 2015: RUB 9,943,238 thousand) (Note 28) and RUB 10,440,000 thousand (31 December 2015: nil), respectively.

12. Investments available for sale

	30 June 2016 (unaudited)	31 December 2015
Held by the Group		
Corporate bonds	3,401,653	4,053,760
Total debt securities	3,401,653	4,053,760
Corporate shares	2,194,804	2,050,847
Interest in share capital	625,190	430,731
Mutual fund units	9,220	170,378
Total equity instruments	2,829,214	2,651,956
Total investments available for sale held by the Group	6,230,867	6,705,716
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	644,187	3,012,640
Total investments available for sale pledged as collateral under sale and repurchase agreements	644,187	3,012,640
Total investments available for sale	6,875,054	9,718,356

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies and a bank (31 December 2015: Russian companies and banks). As at 30 June 2016, these bonds have maturity dates from September 2016 to June 2018 (31 December 2015: from January 2016 to May 2018) and coupon rates from 13% to 16% p.a. (31 December 2015: from 13% to 18% p.a.).

Equity instruments are represented by shares in Russian companies, shares in a Russian bank, interest in the share capital of a Russian company and units of a mutual fund (31 December 2015: shares in Russian companies, shares in a Russian bank, interest in the share capital of a Russian company and units of a mutual fund).

Investments available for sale pledged as collateral under sale and repurchase agreements can be sold or repurchased by the counterparty in accordance with the contractual terms and established practice. As at 30 June 2016, sale and repurchase agreements mature in July 2016 (31 December 2015: January 2016). Related liabilities are recognized in the interim condensed consolidated statement of financial position in line “Due to banks” (Note 13) in the amount of RUB 515,380 thousand (31 December 2015: RUB 3,148,696 thousand).

As at 30 June 2016, the total fair value of corporate bonds pledged as collateral under sale and repurchase agreements is RUB 644,187 thousand; there were no bonds issued by the Group and repurchased by the Group’s participants (31 December 2015: RUB 3,731,584 thousand, including bonds issued by the Group and repurchased by the Group’s participants in the amount of RUB 718,944 thousand eliminated for the purposes of the financial statements).

13. Due to banks

	30 June 2016 (unaudited)	31 December 2015
Due to the Central Bank of the Russian Federation	14,572,327	16,264,946
Sale and repurchase agreements	9,781,605	10,463,712
Term deposits	4,790,722	5,801,234
Due to banks	11,064,845	16,283,510
Term deposits of banks	10,913,233	14,733,731
Loro accounts and overnight deposits of banks	151,612	171,934
Sale and repurchase agreements	—	1,377,845
Total due to banks	25,637,172	32,548,456

As at 30 June 2016, due to banks includes amounts from three banks (31 December 2015: three banks), whose balances individually exceed 10% of total due to banks. The total value of balances due to these credit institutions as at 30 June 2016 is RUB 10,070,459 thousand (31 December 2015: RUB 12,219,998 thousand).

As at 30 June 2016, due to banks includes amounts received from JSC "Russian Bank for Small and Medium Enterprises Support" for the purpose of providing loans to SMEs in the amount of RUB 2,738,977 thousand (31 December 2015: RUB 3,259,166 thousand), or 24.8% (31 December 2015: 20%) of total due to banks. These liabilities have maturity dates from 30 September 2016 to 29 July 2022 (31 December 2015: from 4 March 2016 to 29 July 2022). Interest rates vary from 6 % to 11% p.a. (31 December 2015: from 6% to 11% p.a.). Outstanding balances of loans issued using the funds received from JSC "Russian Bank for Small and Medium Enterprises Support" amount to RUB 2,496,686 thousand (31 December 2015: RUB 3,010,767 thousand).

As at 30 June 2016, liabilities in the amount of RUB 9,781,605 thousand (31 December 2015: RUB 11,841,557 thousand) under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 11,398,068 thousand (31 December 2015: RUB 13,962,191 thousand) (Notes 8, 12), including the funds received from the Central Bank of the Russian Federation in the amount of RUB 1,561,168 thousand collateralized by securities received under the program of additional capitalization with the fair value of RUB 1,567,117 thousand (Note 8).

As at 30 June 2016, due to banks includes the amount of RUB 6,301,444 thousand (31 December 2015: RUB 5,648,169 thousand) received from two related parties (31 December 2015: one related party) (Note 28).

As at 30 June 2016, Loro accounts include borrowings from one counterparty (related party) in the amount of RUB 105,000 thousand. At the same time, cash and cash equivalents comprise overnight deposit in the amount of RUB 105,000 thousand placed with this counterparty (Note 6).

14. Customer accounts

	30 June 2016 (unaudited)	31 December 2015
Corporate entities	32,138,976	35,155,036
- Term deposits	22,971,751	26,619,033
- Current/settlement accounts	8,772,839	6,854,195
- Sale and repurchase agreements	394,386	1,681,808
Individuals	104,170,712	76,820,849
- Term deposits	99,614,365	72,570,973
- Current accounts / demand accounts	4,556,347	4,249,876
Total customer accounts	136,309,688	111,975,885

As at 30 June 2016, liabilities of RUB 394,386 thousand under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 434,349 thousand (31 December 2015: liabilities of RUB 1,681,808 thousand under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 1,777,163 thousand).

14. Customer accounts (continued)

In accordance with the Russian Civil Code, the Group is obliged to repay deposits of individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Industry concentrations within customer accounts are as follows:

	30 June 2016 (unaudited)		31 December 2015	
	Amount	%	Amount	%
Individuals	104,170,283	77	76,820,849	70
Construction and manufacturing	14,677,321	11	18,410,427	17
Trade	4,721,485	4	3,147,465	2
Finance	3,942,314	3	4,977,934	4
Food industry	1,821,869	1	1,044,137	1
Real estate	685,046	1	944,051	1
State owned companies	617,996	—	1,066,878	1
Transport	563,414	—	524,645	—
Agriculture	386,143	—	262,000	—
Hospitality and catering	127,459	—	129,674	—
Leasing	14,278	—	21,547	—
Legal services	1,906	—	1,555	—
Other	4,580,174	3	4,624,723	4
Total customer accounts	136,309,688	100	111,975,885	100

As at 30 June 2016, the Group has eight customers (31 December 2015: eleven customers) with balances exceeding RUB 500,000 thousand. The total value of these balances amounts to RUB 15,575,263 thousand (31 December 2015: RUB 21,581,474 thousand), or 11% (31 December 2015: 19%) of total customer accounts.

15. Debt securities issued

	30 June 2016 (unaudited)	31 December 2015
Russian ruble-denominated bonds	13,780,549	13,172,021
Mortgage-backed bonds	1,507,676	1,035,569
Russian ruble-denominated promissory notes	379,757	1,648,836
Foreign currency-denominated promissory notes	108,262	158,507
Total debt securities issued	15,776,244	16,014,933

15. Debt securities issued (continued)

As at 30 June 2016, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal value	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option as at 30 June 2016
Exchange-traded bonds of eighth issue	2,737,918	2,622,796	10 October 2013	6 October 2016	17.00	6 October 2016
Exchange-traded bonds of eleventh issue	4,171,708	4,000,000	17 September 2013	13 September 2016	14.00	13 September 2016
Exchange-traded bonds of thirteenth issue	1,781,045	1,754,091	3 April 2015	21 March 2025	13.50	6 April 2017
Exchange-traded bonds of fourteenth issue	1,769,114	1,771,400	10 June 2015	28 May 2025	13.50	13 December 2016
Exchange-traded bonds of fifteenth issue	2,868,303	2,873,001	24 December 2014	11 December 2024	13.50	27 December 2016
Exchange-traded bonds of seventeenth issue	452,459	430,927	16 February 2016	3 February 2026	14.50	21 February 2017
Mortgage-backed bonds	1,507,676	1,522,605	16 January 2015	26 March 2047	11.00	As scheduled
Total Russian ruble-denominated bonds issued	15,288,223					

As at 31 December 2015, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal value	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2015
Exchange-traded bonds of seventh issue	3,131,591	2,926,176	8 February 2013	5 February 2016	17.00	5 February 2016
Exchange-traded bonds of eighth issue	2,236,459	2,122,795	10 October 2013	6 October 2016	17.00	6 October 2016
Exchange-traded bonds of eleventh issue	3,732,382	3,559,690	17 September 2013	13 September 2016	14.00	13 September 2016
Exchange-traded bonds of thirteenth issue	2,066,407	2,000,000	3 April 2015	21 March 2025	15.00	7 April 2016
Exchange-traded bonds of fourteenth issue	1,012,788	1,001,022	10 June 2015	28 May 2025	13.50	13 December 2016
Exchange-traded bonds of fifteenth issue	992,394	1,000,000	24 December 2014	11 December 2024	13.50	27 December 2016
Mortgage-backed bonds	1,035,569	1,044,880	16 January 2015	26 March 2047	11.00	As scheduled
Total Russian ruble-denominated bonds issued	14,207,590					

The volumes of bonds partially repurchased at the offer date and treasury bonds sold are presented below:

	30 June 2016 (unaudited)		31 December 2015	
	Early redemption	Sale of treasury bonds	Early redemption	Sale of treasury bonds
Exchange-traded bonds of seventh issue	—	—	1,142,257	1,141,433
Exchange-traded bonds of eighth issue	—	—	534,302	534,097
Exchange-traded bonds of eleventh issue	—	—	2,848,452	2,972,443
Exchange-traded bonds of thirteenth issue	1,990,909	1,745,000	—	—
Exchange-traded bonds of fourteenth issue	—	378	1,748,978	1,428,000
Exchange-traded bonds of fifteenth issue	—	—	1,998,801	—
Total Russian ruble-denominated bonds issued	1,990,909	1,745,378	8,272,790	6,075,973

15. Debt securities issued (continued)

Promissory notes denominated in Russian rubles and foreign currencies are represented by discount and interest-bearing securities issued by the Group. These promissory notes mature from July 2016 to April 2020 (31 December 2015: from January 2016 to April 2020). The effective interest rate varies from 6% to 15% p.a. (31 December 2015: from 5% to 16% p.a.).

16. Eurobonds issued

On 28 April 2014, the Group placed three-year Eurobonds for the amount of USD 70 million with a yield of 11% p.a. On 27 October 2015, Eurobonds in the amount of USD 55 million were early repaid under an offer. As at 30 June 2016, the amortized cost of Eurobonds was RUB 974,489 thousand (31 December 2015: RUB 1,027,256 thousand).

As agreed by the parties, the Group must comply with certain financial covenants, and not all of these covenants were complied with as at 30 June 2016 and 31 December 2015. As the majority of Eurobonds were repaid under an offer, the Group believes that the remaining securities are unlikely to be presented for repayment. The Group's management believes that the implementation of measures under the plan for additional capitalization (Note 29) will ensure compliance with the financial covenants.

17. Subordinated borrowings and Eurobonds

	Date of receipt	Repayment date	Interest rate, % p.a.	Effective interest rate, %	30 June 2016 (unaudited)	31 December 2015
Subordinated borrowing	21 December 2010	1 August 2019	8	8.30	2,099,995	2,099,997
Subordinated borrowing	18 July 2013	23 January 2020	9.25	9.65	999,997	999,997
Subordinated Eurobonds	7 August 2014	—	12.5	12.50	3,998,869	4,542,256
Subordinated borrowing	28 July 2015	28 July 2025	12	12.68	2,416,967	2,416,968
Subordinated borrowing	27 November 2015	27 November 2025	10.5	11.02	250,000	250,000
Subordinated borrowing	8 February 2016	9 February 2026	10.5	11.02	100,000	—
Total subordinated borrowings and Eurobonds					9,865,828	10,309,218

In the event of the Group's bankruptcy, subordinated borrowings will be repaid after the claims of all other creditors are settled.

As at 30 June 2016, subordinated borrowings of RUB 5,866,959 thousand (31 December 2015: RUB 5,766,962 thousand) were received from three related parties (31 December 2015: three related parties) (Note 28).

On 7 August 2014, the Bank received a perpetual subordinated loan in the amount of USD 60 million at the rate of 12.5% p.a. The loan was raised as a result of a debut issue of perpetual subordinated Eurobonds to a limited group of private and institutional investors.

In January 2016, the Bank received subordinated loans in the amount of RUB 1,416,580 from SC "Deposit Insurance Agency" ("DIA") under the program of additional capitalization of the Russian banks approved by the government of the Russian Federation. Pursuant to the agreements, the Bank received securities from DIA (OFZ of five series) which should be returned upon maturity of the subordinated loans. The interest rate applicable to the Bank's subordinated debt equals to the coupon rate applicable to OFZ transferred to the Bank increased by 1% p.a. of the loan. The debt is repaid twice a year, which is the same as the repayment schedule for OFZ transferred to the Bank.

OFZ have nominal interest coupon rate ranging from 12.84% to 14.48% p.a. and will be repaid by the Bank in 2025, 2027, 2029, 2032 and 2034.

17. Subordinated borrowings and Eurobonds (continued)

In accordance with IAS 39, securities received under an agreement stipulating for their return to the transferor, are continued to be recorded by the transferring party and are not recognized in the balance sheet of the entity, which received the securities, since the transferring party retains substantially all rewards of such securities ownership. Accordingly, the liability to return the securities also is not subject to recognition in the Bank's statement of financial position in the financial statements prepared in accordance with IFRS. Thus, OFZ and the subordinated loan received by the Bank under the program of additional capitalization of the Russian banks are not recognized in the Bank's statement of financial position as at 30 June 2016 prepared in accordance with IFRS.

As at 30 June 2016, the Group included subordinated loans received from DIA in Tier 2 capital in calculation of the capital adequacy ratio based on the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and Amendment to the Capital Accord to incorporate market risks (updated in November 2005).

18. Deposit received from SC “Deposit Insurance Agency”

On 17 March 2016, JSC “Bank “Sovetsky” received a loan from SC “Deposit Insurance Agency” (DIA) in the amount of RUB 10,790,000 thousand at 0.51% p.a. (discounted at the effective rate of 14.81%) in the course of implementing measures provided for by the Plan of DIA's participation in the bankruptcy prevention procedures in respect of JSC “Bank “Sovetsky”. The loan matures on 17 March 2026. As at the date of control transfer, the fair value of the loan amounted to RUB 3,051,085 thousand (Note 5). As at 30 June 2016, the fair value of the loan amounted to RUB 3,108,644 thousand. To secure the obligations of JSC “Bank “Sovetsky” to SC “Deposit Insurance Agency”, the Group pledged receivables under loan agreements totaling RUB 12,416,321 thousand (including the Bank: RUB 7,875,738 thousand and JSC “Bank “Sovetsky”: RUB 4,540,583 thousand) (Note 26).

19. Share capital

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian ruble, as at 30 June 2016 is RUB 14,423,000 thousand (31 December 2015: RUB 14,423,000 thousand). The authorized share capital of the Bank consists of 4,817,700,000 ordinary shares with a nominal value of RUB 10 per share. The issued share capital of the Bank comprises 1,442,300,000 ordinary shares (31 December 2015: 1,442,300,000 ordinary shares) with a nominal value of RUB 10 per share. Each share carries one vote.

The recent increase in the share capital was made in December 2015. In November 2014, shareholders of the Bank approved an issue of 400,000,000 ordinary shares. This share issue was registered by the CBR on 31 March 2015. Assets received in consideration for these shares consisted of cash in the total amount of RUB 1,823,000 thousand. On 4 December 2015, the CBR registered the report on the issue.

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares		Nominal value		Inflation adjustment	Total
	Preferred	Ordinary	Preferred	Ordinary		
At 1 January 2015	–	1,260,000,000	–	12,600,000	511,618	13,111,618
Change	–	–	–	–	–	–
At 30 June 2015 (unaudited)	–	1,260,000,000	–	12,600,000	511,618	13,111,618
At 1 January 2016	–	1,442,300,000	–	14,423,000	511,618	14,934,618
Change	–	–	–	–	–	–
At 30 June 2016 (unaudited)	–	1,442,300,000	–	14,423,000	511,618	14,934,618

As at 30 June 2016, paid-up share capital adjusted for inflation amounts to RUB 14,934,618 thousand (31 December 2015: RUB 14,934,618 thousand).

19. Share capital (continued)

Profit is distributed based on accumulated earnings recorded in statutory financial statements. According to Russian law, as at 30 June 2016, the Bank's reserves and retained loss amounted to RUB 905,620 thousand (31 December 2015: reserves and retained loss were RUB 876,190 thousand) (unaudited).

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	Unrealized gains/(losses) on investment securities available for sale	Accumulated deficit	Total
At 1 January 2015	196,208	(182,700)	(3,029,524)	(3,016,016)
Amortization of revaluation reserve, net of tax	(2,147)	–	2,147	–
Net unrealized losses from investment securities available for sale	–	(6,732)	–	(6,732)
Realized gains on investment securities available for sale reclassified to the income statement	–	43,011	–	43,011
Tax effect of net gains on investment securities available for sale	–	(7,255)	–	(7,255)
Loss for the period	–	–	(2,590,497)	(2,590,497)
At 30 June 2015 (unaudited)	194,061	(153,676)	(5,617,874)	(5,577,489)
At 1 January 2016	191,914	(178,158)	(9,030,709)	(9,016,953)
Amortization of revaluation reserve, net of tax	(2,147)	–	2,147	–
Net unrealized gains on investment securities available for sale	–	21,170	–	21,170
Realized gains on investment securities available for sale reclassified to the income statement	–	324,399	–	324,399
Tax effect of net gains on investment securities available for sale	–	(69,114)	–	(69,114)
Loss for the period	–	–	(3,197,654)	(3,197,654)
Amounts due to shareholders	–	–	1,500,000	1,500,000
At 30 June 2016 (unaudited)	189,767	98,297	(10,726,216)	(10,438,152)

On 30 June 2016, under the agreement to increase net assets, the Bank's shareholder provided debt-free financing in the amount of RUB 1,500,000 thousand, which was included in tier 1 capital. In July 2016, the Bank continued to implement measures to attract additional capitalization from its shareholders (Note 29).

No dividends for 2015 and 2014 were declared.

20. Interest income and expense

	For the six months ended 30 June		For the three months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Interest income				
Loans and advances to customers	10,030,547	7,403,222	4,959,292	3,719,618
Debt financial instruments at fair value through profit or loss	868,326	1,261,763	482,622	630,882
Debt investments available for sale	417,168	276,144	167,431	138,072
Due from banks	180,193	172,453	111,527	86,227
Receivables under sale and repurchase agreements	100,400	54,405	40,413	27,203
Other	95,609	84,665	91,105	42,331
Total interest income	11,692,243	9,252,652	5,852,390	4,644,333

20. Interest income and expense (continued)

	For the six months ended 30 June		For the three months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Interest expense				
Customer accounts	(5,329,271)	(5,522,560)	(3,112,733)	(2,807,552)
Term deposits of other banks and securities reverse repurchase transactions	(1,822,210)	(1,551,848)	(891,148)	(775,924)
Debt securities issued	(941,152)	(1,395,643)	(495,876)	(697,822)
Subordinated liabilities	(617,163)	(637,599)	(68,037)	(318,800)
Other	(105)	(61)	–	(30)
Total interest expense	(8,709,901)	(9,107,711)	(4,567,794)	(4,600,128)

21. Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	2016	2015
(Losses) less gains from foreign currencies	(2,919,654)	(1,550,312)	(1,112,881)	(775,156)
Gains less losses from foreign currency translation	890,890	955,883	344,276	477,942
Gains less losses from foreign exchange derivatives	1,689,721	425,168	757,041	212,584
Total (losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(339,043)	(169,261)	(11,564)	(84,630)

22. Allowance for impairment

	For the six months ended 30 June		For the three months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Loans to customers (Note 11)	(1,729,370)	(1,957,322)	18,396	(1,434,492)
Other assets	(698,458)	(14)	(698,458)	(14)
Due from banks (Note 7)	17,250	–	6,700	–
Total allowances for impairment	(2,410,578)	(1,957,336)	(673,362)	(1,434,506)

As at 30 June 2016, other assets of the Group, except for derivative financial instruments (Note 9), amounted to RUB 5,972,435 thousand, including allowance for impairment of RUB 757,362 thousand (31 December 2015: RUB 3,121,361 thousand, including allowance for impairment of RUB 299,560 thousand). On 29 and 30 June 2016, the Group concluded several securities sale and purchase agreements with a related party to purchase exchange-traded bonds of different issuers for a total amount of RUB 2,485,702 thousand. The agreements imply that the securities should be paid for on the date of signing the agreements and delivered until 26 September 2016. As a result, the Group accrued accounts receivable (as at 30 June 2016, no allowance was accrued). In addition, as at 30 June 2016, other assets include accounts receivable from three counterparties totaling RUB 2,461,896 thousand, on which the Group accrued an allowance for impairment in the amount of RUB 715,810 thousand during the first half of 2016.

23. Income tax expense

Income tax expense comprises:

	30 June 2016 (unaudited)	30 June 2015 (unaudited)
Current income tax expense	18,163	14,488
Deferred tax (benefit)/expense – origination and reversal of temporary differences	(80,258)	135,661
Less: deferred tax recognized in other comprehensive income	(69,114)	(7,255)
Income tax (benefit)/expense	(131,209)	142,894

24. Segment analysis

The Group is organized into three main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. The operations in each of the reportable segments are described below:

- ▶ Corporate banking – current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency operations, and other transactions with corporate customers.
- ▶ Retail banking – banking services to individuals, including current accounts, deposits, custody, credit and debit cards, consumer loans and mortgages.
- ▶ Investment banking – trading in financial instruments, including derivatives, providing loans and attracting deposits in the interbank market. The Group does not allocate equity between segments.

The Management Board evaluates the profitability of the operating segments based on financial information prepared using the accounting data maintained in accordance with Russian Accounting Principles.

The accounting policies relating to operating segments are based on the Russian Accounting Principles, therefore they differ significantly from the accounting policies described in these interim condensed consolidated financial statements. Information regarding the results of each reporting segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry.

The Group does not allocate the net book value of property and equipment between the segments to determine the total value of segment assets. These assets are included in the “Unallocated” category to reconcile total segment assets to total assets of the Group.

Revenue and profit information for the operating segments of the Group for the six-month periods ended 30 June 2016 and 2015, respectively, is presented below:

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the period ended 30 June 2016 (unaudited)					
Total revenue comprises					
- Interest income	5,909,783	1,553,401	1,283,071	–	8,746,255
- Fee and commission income	541,951	418,193	8,915	4	969,063
- Other operating income	27,191	157,372	154,840	6,908	346,311
Total external revenues	6,478,925	2,128,966	1,446,826	6,912	10,061,629
Intersegment revenues	1,768,607	4,281,598	16,008,981	–	22,059,186
Segment results	(2,277,355)	(285,975)	(129,984)	(25,142)	(2,718,456)

24. Segment analysis (continued)

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the period ended 30 June 2015 (unaudited)					
Total revenue comprises					
- Interest income	4,875,700	1,618,690	3,226,434	–	9,720,824
- Fee and commission income	465,830	415,200	3,064	(174)	883,920
- Other operating income	40,930	161,309	249,404	7,885	459,528
Total external revenues	5,382,460	2,195,199	3,478,902	7,711	11,064,272
Intersegment revenues	1,813,931	4,272,942	4,518,832	–	10,605,705
Segment results	861,696	(732,795)	(596,460)	(22,733)	(490,292)

The difference in the amount of interest income recorded in management accounts and that for IFRS purposes is due to the fact that interest income for management accounts includes fiduciary fees and commissions.

Administrative and other operating expenses are allocated between segments for the purposes of segment analysis based on cost components, the principal one being the headcount.

Intersegment revenues were calculated for management accounting purposes in accordance with transfer pricing principles applied by the Bank.

A reconciliation of profit before income tax expense per management accounts to profit before income tax expense as presented in these IFRS interim condensed consolidated financial statements is provided below:

	For the period ended 30 June 2016 (unaudited)	For the period ended 30 June 2015 (unaudited)
Loss before tax per management accounts	(2,718,456)	(490,292)
Adjustments in allowances for impairment	1,216,450	(1,424,460)
Consolidation adjustments	(581,222)	145,086
Adjustments in assets and liabilities at fair value	(1,067,297)	(957,831)
Adjustments in assets and liabilities at amortized cost	(186,653)	369,580
Other adjustments	(63,849)	(82,500)
Loss before tax per IFRS financial information	(3,401,027)	(2,440,417)

Assets and liabilities of the Group's operating segments are presented in the table below:

Segment assets	Corporate banking	Retail banking	Investment banking	Unallocated	Total
30 June 2016 (unaudited)	95,153,613	18,752,540	68,027,291	7,024,511	188,957,955
31 December 2015	91,222,039	18,925,106	62,979,098	14,329,103	187,455,346
Segment liabilities	Corporate banking	Retail banking	Investment banking	Unallocated	Total
30 June 2016 (unaudited)	39,319,034	74,804,971	58,339,490	2,977,080	175,440,575
31 December 2015	43,773,618	74,351,187	49,730,622	3,758,764	171,614,191

24. Segment analysis (continued)

Financial information in the segment analysis (or management accounting) differs in many respects from the information prepared in accordance with IFRS. The major differences are:

- ▶ Allowance adjustments arise from differences in valuation techniques applied when calculating allowances for loan impairment under IFRS and RAP for management accounting purposes.
- ▶ A difference in the revaluation of securities recorded at fair value through profit or loss arises from differences between valuation techniques for securities under IFRS and RAP for management accounting purposes.
- ▶ Adjustments to accumulated income/expenses arise mainly from the fact that the Group uses nominal interest rates when preparing management accounts and effective interest rates when preparing IFRS financial statements.
- ▶ Consolidation of subsidiaries.
- ▶ Allowance for impairment of other financial assets.

A reconciliation of total segmental assets/liabilities per management accounts to total assets/liabilities as presented in these IFRS interim condensed consolidated financial statements is provided below.

	30 June 2016 (unaudited)		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounts	188,957,955	175,440,575	187,455,346	171,614,191
Adjustments in allowances for impairment	(5,363,701)	—	(6,580,151)	—
Consolidation adjustments	26,085,870	20,760,645	10,504,268	4,597,821
Adjustments in assets and liabilities at fair value	(9,115,148)	8,128	(8,049,494)	6,485
Adjustments in assets and liabilities at amortized cost	(1,416,084)	(118,434)	(1,128,656)	(17,659)
Other adjustments	537,007	(1,046,370)	(698,966)	(783,208)
Total assets/liabilities per IFRS financial statements	199,685,899	195,044,544	181,502,347	175,417,630

Information about major customers. Substantially all revenues from external customers are generated from transactions within the Republic of Tatarstan with counterparties located in the Republic of Tatarstan. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10% of total revenues. Most of non-current assets are located in the Russian Federation.

25. Liquidity risk

As at 30 June 2016, the Group's liquidity position is as follows:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	13,333,099	—	—	—	—	13,333,099
Mandatory cash balances with the CBR	—	—	—	—	1,704,518	1,704,518
Due from banks	10,167	1,160,992	—	596,390	964	1,768,513
Financial instruments at fair value through profit or loss	22,143,948	—	—	—	—	22,143,948
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	9,186,764	—	—	—	—	9,186,764
Securities lent	—	1,475,188	—	—	—	1,475,188
Loans to customers	4,797,049	38,154,783	37,410,607	45,363,571	3,688,332	129,414,342
Investments available for sale	6,230,867	—	—	—	—	6,230,867
Investments available for sale, pledged as collateral under sale and repurchase agreements	644,187	—	—	—	—	644,187
Other financial assets	723,792	4,931,409	95,462	713,399	279,754	6,743,816
Total financial assets	57,069,873	45,722,372	37,506,069	46,673,360	5,673,568	192,645,242
Financial liabilities						
Due to the CBR	12,009,487	2,562,840	—	—	—	14,572,327
Due to banks	4,909,936	2,082,946	25,257	4,046,706	—	11,064,845
Customer accounts	26,506,416	71,227,377	33,554,749	5,021,146	—	136,309,688
Debt securities issued	258,661	11,817,523	2,290,450	1,409,610	—	15,776,244
Eurobonds issued	—	—	974,489	—	—	974,489
Amounts received from DIA	—	—	—	3,108,644	—	3,108,644
Subordinated borrowings	—	—	—	9,865,828	—	9,865,828
Other financial liabilities	377,017	23,737	15,595	73,618	1,740	491,707
Total financial liabilities	44,061,517	87,714,423	36,860,540	23,525,552	1,740	192,163,772
Net gap	13,008,356	(41,992,051)	645,529	23,147,808	5,671,828	481,470
Cumulative gap at 30 June 2016	13,008,356	(28,983,695)	(28,338,166)	(5,190,358)	481,470	—

The Bank has prepared an action plan to replace projected cash outflows expected in September-October 2016.

25. Liquidity risk (continued)

As at 31 December 2015, the Group's liquidity position is as follows:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	13,579,727	—	—	—	—	13,579,727
Mandatory cash balances with the CBR	—	—	—	—	891,824	891,824
Due from banks	2,354	927,941	—	456,697	—	1,386,992
Financial instruments at fair value through profit or loss	19,715,034	—	—	—	—	19,715,034
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	8,618,303	—	—	—	—	8,618,303
Securities lent	—	656,365	—	—	—	656,365
Loans to customers	7,605,540	28,013,518	45,671,921	38,330,079	1,660,650	121,281,708
Investments available for sale	6,705,716	—	—	—	—	6,705,716
Investments available for sale, pledged as collateral under sale and repurchase agreements	3,012,640	—	—	—	—	3,012,640
Other financial assets	414,896	1,793,422	87,057	86,265	4,815	2,386,455
Total financial assets	59,654,210	31,391,246	45,758,978	38,873,041	2,557,289	178,234,764
Financial liabilities						
Due to the CBR	15,879,091	385,855	—	—	—	16,264,946
Due to banks	8,884,624	2,734,035	23,365	4,641,486	—	16,283,510
Customer accounts	26,583,591	50,659,368	31,885,749	2,847,177	—	111,975,885
Debt securities issued	439,785	6,447,536	8,196,015	931,597	—	16,014,933
Eurobonds issued	—	—	—	1,027,256	—	1,027,256
Other borrowings	3,304	—	900	94,903	—	99,107
Other financial liabilities	304,535	65,593	7,664	1,548	—	379,340
Subordinated borrowings and Eurobonds	—	—	—	10,309,218	—	10,309,218
Total financial liabilities	52,094,930	60,292,387	40,113,693	19,853,185	—	172,354,195
Net gap	7,559,280	(28,901,141)	5,645,285	19,019,856	2,557,289	5,880,569
Cumulative gap at 31 December 2015	7,559,280	(21,341,861)	(15,696,576)	3,323,280	5,880,569	—

The liquidity gap within the period of 12 months is most influenced by:

- ▶ Deposits of individuals – 58% (31 December 2015: 46%).
- ▶ Deposits of corporate entities – 14% (31 December 2015: 18%).
- ▶ Interbank borrowings – 13% (31 December 2015: 18%).

Deposits of individuals are presented by contractual maturity dates. Management believes that regardless of the fact that a substantial portion of deposits of individuals is classified as "From 1 to 6 months" and "From 6 to 12 months", most of them will be extended. Diversification of these deposits by number and type, and the past experience (accumulated statistics) of the Group, indicate that these amounts provide a long-term and stable source of financing.

25. Liquidity risk (continued)

The Bank regularly assesses minimum cash balances on legal entities' settlement accounts and individuals' current accounts and plastic cards and treats them as a stable source of financing. As at 30 June 2016, the minimum amount of security deposits is RUB 8.8 billion (31 December 2015: RUB 8.4 billion).

Debt securities issued are considered by the period until the next offer. The Group has debt securities issued in the amount of RUB 15.3 billion (31 December 2015: RUB 15.1 billion) maturing within 12 months after the reporting date. In assessing the Group's liabilities, management expects that more than RUB 3 billion (31 December 2015: RUB 3 billion) may not be redeemed under the offers. The above statement is based on the statistics of bond issue offers, starting from 2011, adjusted for current market conditions. On average, about 56% of the issue is offered (variance of 7%-100%), however, around 89% of repurchased bonds return to the market within three months after the offer (variance of 21%-100%). All of the Group's bonds denominated in rubles, excluding the most recently placed issue of Tatfond BO-17, are included in the Lombard List of the Central Bank of the Russian Federation, therefore, they are in demand from investors.

Management believes that the Group will be able to refinance its debt. It is confirmed by the fact that in the first half of 2016, the Group placed one new bond issue in the amount of RUB 2 billion and redeemed one bond issue in the amount of RUB 3 billion.

Deposits of legal entities maturing within 12 months after the reporting date amount to RUB 22 billion (31 December 2015: RUB 26.9 billion). Management does not expect significant cash outflows from deposit accounts.

Management may refinance existing liabilities by using open credit facilities with other banks, raising funds collateralized by securities portfolio and borrowing from the Central Bank of the Russian Federation:

- ▶ Total credit lines opened with Russian counterparty banks are estimated at RUB 33 billion (31 December 2015: RUB 21.3 billion).
- ▶ Securities included in the Lombard List of the Central Bank of the Russian Federation are estimated at RUB 16.6 billion (31 December 2015: RUB 18.1 billion), including securities pledged as collateral under sale and repurchase agreements in the amount of RUB 9.8 billion (31 December 2015: RUB 11.6 billion).

Apart from providing a liquidity cushion, the Group takes the following steps to secure funding, maintain current liquidity level and ensure timely fulfillment of its liabilities:

- ▶ The loan portfolio eligible to be used as collateral for borrowings from the Central Bank of the Russian Federation is increased.
- ▶ In 2014-2015, five bond issues in the total amount of RUB 13 billion were registered (31 December 2015: six bond issues in the total amount of RUB 15 billion). These funds may be used as intended, if necessary.

In December 2015, the Bank's share capital was increased by RUB 1.8 billion due to an additional issue of shares registered by the Central Bank of the Russian Federation on 31 March 2015 (Note 19).

In 2015, the Bank was included in the list of regional banks approved by the Government of the Russian Federation to implement measures to increase capitalization. In January 2016, the Bank received RUB 1.4 billion under the program.

Management of the Group believes, based on discussion with regional government representatives and written confirmations received from them in 2016, that the Bank and the Group will get support, if needed, from the Government of the Republic of Tatarstan and other authorities to improve liquidity and ensure financial sustainability of the Group. The Government of the Republic of Tatarstan made an injection of RUB 2 billion in the Bank's share capital in 2008 and granted a subordinated loan of RUB 2.1 billion in 2010.

Management expects that the Government of the Republic of Tatarstan will continue to support the Bank and the Group. In July 2016, the Bank raised subordinated borrowings totaling RUB 4 billion from a 100% state-owned company for eight years (Note 26).

In July 2016, JSC “Tatspiroptrom”, a 100% state-owned company, acquired 250 million registered ordinary shares in a credit institution from the current shareholders of PJSC “Tatfondbank” for RUB 10 per share in the total amount of RUB 2.5 billion (17.33% of the share capital). The Bank's shareholders used the funds received from the sale of the shares to increase the Bank's tier 1 capital under the agreement to increase net assets (Note 26).

25. Liquidity risk (continued)

In the first half of 2017, according to the plan for strategic development of the Bank, the Bank expects to receive assets in the form of land plots with the cadastral value of RUB 40 billion currently owned by the Ministry of Land and Property Relations of the Republic of Tatarstan. As part of plans to develop these territories, the Bank has designed, in line with the development strategy of Kazan and the Republic of Tatarstan, a site development project.

Thus, management of the Group concludes that the Group will be able to maintain a sufficient liquidity level during the next 12 months.

26. Commitments and contingencies

Legal proceedings. From time to time, in the ordinary course of business the Group is subject to legal actions. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group.

Tax legislation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations, which may apply to legal relations retrospectively, selective and inconsistent application and changes, which can occur frequently and, in some cases, at short notice. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal state authorities at any time in the future.

The calculation of tax liabilities is subject to review and detailed investigation by the tax authorities that have the power to collect taxes and impose fines and penalties. The field audits of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year when the tax authorities made the decision to conduct the tax audit. Under certain circumstances audits may cover longer periods.

The Russian transfer pricing legislation allows Russian tax authorities to adjust the tax base and impose additional income tax and, in certain cases, VAT in respect of all controlled transactions if the transaction price differs from the market price. "Controlled" transactions may include transactions with related parties and certain types of transactions with unrelated parties, which are considered the same as "controlled" transactions. Special transfer pricing rules apply to "controlled" transactions with securities and derivative financial instruments.

Recent events in the Russian Federation suggest that the tax authorities may, in practice, be taking a more assertive position in their interpretation and application of certain provisions of tax legislation, and in performing tax audits and assessing additional taxes. Consequently, the tax authorities may challenge the transactions and operations of the Group which have not been challenged before. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

As at 30 June 2016, management believes that tax liabilities of the Bank were fully disclosed in these interim condensed consolidated financial statements based on management's interpretation of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of tax legislation by various regulatory authorities could differ from management's opinion and their effect on the financial position of the Group, if the regulatory authorities were successful in enforcing their interpretations, could be significant.

Based on the available information, no provision for potential tax liabilities was made in these interim condensed consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such liabilities.

Capital expenditure commitments. As at 30 June 2016, the Group has contractual capital expenditure commitments, including commitments to purchase equipment, in the total amount of RUB 35,031 thousand (31 December 2015: RUB 520 thousand).

26. Commitments and contingencies (continued)

Operating lease commitments. Where the Group acts as a lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2016 (unaudited)	31 December 2015
Less than 1 year	200,598	205,591
From 1 to 5 years	220,927	188,651
Total operating lease commitments	421,525	394,242

As at 30 June 2016, total future minimum payments receivable under non-cancellable operating leases amount to RUB 31,641 thousand (31 December 2015: RUB 24,699 thousand).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of management's authorizations to extend credit in the form of loans, guarantees or letters of credit.

With respect to commitments to extend credit, the Group is potentially exposed to the risk of losses in the amount equal to the total unused commitments.

However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers meeting certain creditworthiness requirements. The Group monitors the term to maturity of credit related commitments, as long-term commitments have a greater degree of credit risk than short-term commitments.

The total outstanding contractual amount of undrawn credit facilities and guarantees does not necessarily represent future cash requirements, as these liabilities may expire or terminate without being funded.

Credit related commitments comprise:

	30 June 2016 (unaudited)	31 December 2015
Undrawn credit facilities	9,392,323	5,674,975
Contingencies	11,876,655	11,152,198
Total credit related commitments	21,268,978	16,827,173

Credit related commitments are denominated in the following currencies:

	30 June 2016 (unaudited)	31 December 2015
RUB	20,876,576	16,263,616
USD	24,533	31,776
EUR	367,869	531,781
Total credit related commitments	21,268,978	16,827,173

26. Commitments and contingencies (continued)

Transferred financial assets not derecognized in their entirety and pledged assets. The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	30 June 2016 (unaudited)		31 December 2015	
	Pledged assets	Related liability	Pledged assets	Related liability
Securities pledged as collateral under sale and repurchase agreements with other banks				
- Financial instruments at fair value through profit or loss	10,753,881	9,266,225	10,230,607	8,692,861
- Investments available for sale	644,187	515,380	3,731,584	3,148,696
Securities pledged as collateral under sale and repurchase agreements with customers				
- Financial instruments at fair value through profit or loss	434,349	394,386	1,777,163	1,681,808
Assets provided as collateral for State Corporation “Deposit Insurance Agency”				
- Credit claims	13,757,247	3,108,644	2,349,592	–
- Financial instruments at fair value through profit or loss	4,912,266	–	4,965,764	–
Total	30,501,930	13,284,635	23,054,710	13,523,365

Under agreements, the counterparty may sell or repledge securities sold under sale and repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the agreement.

As at 30 June 2016, the Russian state bonds with the fair value of RUB 1,567,117 thousand received under the program of additional capitalization of the Bank (31 December 2015: none) were pledged under repurchase agreements with the Central Bank of the Russian Federation. These Russian state bonds are not recorded in the interim condensed consolidated statement of financial position. Related liabilities are recognized in the interim condensed consolidated statement of financial position in line “Due to banks” (Note 13) in the amount of RUB 1,561,168 thousand (31 December 2015: none).

Since 27 May 2014, the Bank of Russia together with State Corporation “Deposit Insurance Agency” has been implementing bankruptcy prevention measures for PJSC “Timer Bank” (former OJSC JSCB BTA-Kazan). The Bank was appointed as a turnaround manager upon a proposal by the government of the Republic of Tatarstan. To secure the obligations of PJSC “Timer Bank” to State Corporation “Deposit Insurance Agency”, the Bank pledged receivables under loan agreements of RUB 1,340,926 thousand and its own financial instruments of RUB 4,912,266 thousand (31 December 2015: receivables under loan agreements of RUB 2,349,592 thousand and its own financial instruments of RUB 4,965,764 thousand).

Since 16 May 2016, the Bank of Russia together with State Corporation “Deposit Insurance Agency” has been implementing bankruptcy prevention measures for JSC “Bank “Sovetsky”. To secure the obligations of JSC “Bank “Sovetsky” to State Corporation “Deposit Insurance Agency”, the Group pledged receivables under loan agreements totaling RUB 12,416,321 thousand (including the Bank: RUB 7,875,738 thousand and JSC “Bank “Sovetsky”: RUB 4,540,583 thousand).

25. Commitments and contingencies (continued)

Assets held as collateral. The Group holds certain assets as collateral. Financial assets received by the Group as collateral under reverse repurchase agreements are presented in the table below:

	30 June 2016 (unaudited)		31 December 2015	
	Assets received	Associated assets	Assets received	Associated assets
Securities received as collateral under reverse repurchase agreements with other banks (Note 7)	1,036,861	927,993	974,186	927,941
Securities received as collateral under reverse repurchase agreements with customers (Note 11)	204,616	199,894	3,435,301	4,115,115
Total	1,241,477	1,127,887	4,409,487	5,043,056

27. Fair value measurement

The estimated fair value of financial instruments is determined by the Group based on the available market information (if any) and appropriate valuation techniques. Professional judgment is applied to interpret market information for the purpose of determining fair value. The economy of the Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair value of financial instruments. Management uses all available market information in determining the fair value of financial instruments.

Financial instruments at fair value through profit or loss and investments available for sale (other than unquoted securities for which it is impracticable to determine fair value) are carried in the consolidated statement of financial position at their fair value. The fair value is determined based on market prices except for those securities for which no external independent market price quotations are available.

Valuation methods for unquoted securities and equity securities not traded in the active market required certain assumptions that are not supported by observable market data. An active market is a market which satisfies the following conditions: items traded in the market are homogenous; willing sellers and buyers are generally available at any time; information on prices is publicly available. Indicators of abnormal market conditions (i.e. of an inactive market) can be large spreads between the purchase price and the selling price or a relatively small number of bids.

The estimated fair value of other financial instruments is determined based on the discounted future cash flows expected to be received or paid.

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-based rate for a similar instrument at the reporting date.

The fair value of floating interest rate instruments is generally equal to their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated cash flows discounted at current lending market interest rates for new instruments with similar credit risk and maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability; or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability.

27. Fair value measurement (continued)

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

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

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

The following table shows the analysis of assets and liabilities as at 30 June 2016 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial instruments at fair value through profit or loss				
- Held by the Group	5,282,590	7,902,596	8,958,762	22,143,948
- Pledged as collateral under sale and repurchase agreements	7,187,946	1,998,818	—	9,186,764
Securities lent	—	—	1,475,188	1,475,188
Investments available for sale				
- Held by the Group	132,193	68,118	6,030,556	6,230,867
- Pledged as collateral under sale and repurchase agreements	271,342	372,845	—	644,187
Investment property	—	—	3,877,392	3,877,392
Property and equipment	—	—	1,797,334	1,797,334
Derivative financial assets	—	1,571,960	—	1,571,960
Assets for which fair values are disclosed				
Due from banks	—	1,692,575	—	1,692,575
Loans to customers	—	—	128,680,361	128,680,361
Other financial assets	—	—	5,003,134	5,003,134
Liabilities measured at fair value				
Derivative financial liabilities	—	8,081	—	8,081
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	—	14,572,327	—	14,572,327
Due to banks	—	10,856,084	—	10,856,084
Customer accounts	—	—	136,199,037	136,199,037
Debt securities issued:				
- Bonds	13,891,516	1,507,676	—	15,399,192
- Promissory notes	—	—	479,854	479,854
Eurobonds issued	—	1,028,237	—	1,028,237
Subordinated borrowings and Eurobonds	—	—	8,955,785	8,955,785

27. Fair value measurement (continued)

The following table shows the analysis of assets and liabilities as at 31 December 2015 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial instruments at fair value through profit or loss:				
- Held by the Group	3,952,593	6,588,294	9,174,147	19,715,034
- Pledged as collateral under sale and repurchase agreements	6,246,409	2,371,894	—	8,618,303
Securities lent	—	—	656,365	656,365
Investments available for sale:				
- Held by the Group	577,715	7,784	6,120,217	6,705,716
- Pledged as collateral under sale and repurchase agreements	1,537,535	1,475,105	—	3,012,640
Investment property	—	—	1,172,106	1,172,106
Property and equipment	—	—	757,295	757,295
Derivative financial assets	—	50,965	—	50,965
Assets for which fair values are disclosed				
Due from banks	—	1,434,178	—	1,434,178
Loans to customers	—	—	120,751,326	120,751,326
Other financial assets	—	—	2,270,982	2,270,982
Liabilities measured at fair value				
Derivative financial liabilities	—	6,485	—	6,485
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	—	16,264,946	—	16,264,946
Due to banks	—	15,862,276	—	15,862,276
Customer accounts	—	—	113,533,992	113,533,992
Debt securities issued:				
- Bonds	13,246,391	1,035,569	—	14,281,960
- Promissory notes	—	—	1,804,657	1,804,657
Eurobonds issued	—	1,045,448	—	1,045,448
Other borrowings	—	—	88,438	88,438
Subordinated borrowings and Eurobonds	—	—	9,356,437	9,356,437

Transfers between Level 1 and Level 2. The tables below show the transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities measured at fair value during the six months ended 30 June 2016:

	Transfers from Level 2 to Level 1 for the six months ended 30 June 2016 (unaudited)
Financial assets	
Financial instruments at fair value through profit or loss	6,168
Investments available for sale	—
Total	6,168

27. Fair value measurement (continued)

The reason for the transfer of certain financial instruments from Level 2 to Level 1 of the fair value hierarchy is that the market for some securities has become active, and since the transfer, these financial instruments have been valued using quoted prices in active markets.

	Transfers from Level 1 to Level 2 for the six months ended 30 June 2016 (unaudited)
Financial assets	
Financial instruments at fair value through profit or loss	—
Investments available for sale	60,434
Total	60,434

The reason for the transfer of certain financial instruments from Level 1 to Level 2 of the fair value hierarchy is that the market for some securities has become inactive, and since the transfer, these financial instruments have been valued using valuation techniques incorporating observable inputs.

Changes in fair value measurements related to Level 3 of the fair value hierarchy may be presented as follows:

	Financial instruments at fair value through profit or loss		Investment securities available for sale	
	For the six months ended 30 June 2016 (unaudited)	2015	For the six months ended 30 June 2016 (unaudited)	2015
Balance at the beginning of the period	9,830,512	10,121,510	6,120,217	4,835,154
Total gains or losses recorded within:				
- Profit or loss	(3,432,956)	(1,198,929)	(232,112)	900,695
- Other comprehensive income	—	—	209,253	232,500
Purchases	4,454,246	3,694,258	2,468,410	12,445,041
Sales	(417,852)	(2,786,327)	(639,244)	(11,567,459)
Repayments	—	—	(1,895,968)	(725,714)
Balance at the end of the period	10,433,950	9,830,512	6,030,556	6,120,217
Unrealized (losses)/ gains for the period included in financial result for assets held at the reporting date	(497,167)	(585,670)	(234,411)	927,828
Unrealized gains for the period included in other comprehensive income for assets held at the reporting date	—	—	203,937	194,070

27. Fair value measurement (continued)

The Group believes that its estimates of the fair value are appropriate; however, the use of different methodologies and judgments could lead to different fair value measurements. Changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions would have had the following effect on the calculation results as at 30 June 2016:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	1,043,384	(1,043,384)	–	–
Investments available for sale	9,405	(9,405)	593,651	(593,651)
Investment property	387,739	(387,739)	–	–
Property and equipment	–	–	179,733	(179,733)
Total	1,440,528	(1,440,528)	773,384	(773,384)

Changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions would have had the following effect on the calculation results as at 31 December 2015:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	983,051	(983,051)	–	–
Investments available for sale	–	–	612,022	(612,022)
Investment property	117,210	(117,210)	–	–
Property and equipment	–	–	75,730	(75,730)
Total	1,100,261	(1,100,261)	687,752	(687,752)

Favorable and unfavorable effects of using possible alternative assumptions are calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on average values of the upper and lower quartiles of the Group's range of possible estimates.

Impact of changes in significant unobservable inputs on the measurement of financial instruments categorized within Level 3 of the fair value hierarchy. The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 30 June 2016:

	Carrying amount	Valuation techniques	Unobservable inputs	Range
Equity securities				
Mutual funds	8,967,765	Net asset value	Net assets	Not applicable
Real estate	1,836,064	Net asset value	Net assets	Not applicable
Finance	625,190	Net asset value	Net assets	Not applicable
Manufacturing	224,258	Net asset value	Net assets	Not applicable
Debt securities				
Trade	3,336,041	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4%-10% 10%
Securities lent				
Mutual funds	1,475,188	Net asset value	Net assets	Not applicable
Total	16,464,506			

27. Fair value measurement (continued)

The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 31 December 2015:

	Carrying amount	Valuation techniques	Unobservable inputs	Range
Equity securities				
Mutual funds	9,341,864	Net asset value	Net assets	Not applicable
Real estate	1,751,238	Net asset value	Net assets	Not applicable
Finance	430,732	Net asset value	Net assets	Not applicable
Manufacturing	231,654	Net asset value	Net assets	Not applicable
Debt securities				
Trade	3,058,476	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4%-6% 10%
Finance	480,400	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4% 9%
Securities lent				
Mutual funds	656,365	Net asset value	Net assets	Not applicable
Total	15,950,729			

Financial instruments not carried at fair value in the statement of financial position. The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position as at 30 June 2016. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2016 (unaudited)		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,768,513	1,692,575	(75,938)
Loans to customers	129,414,342	128,680,361	(733,981)
Other financial assets	5,171,856	5,003,134	(168,722)
Financial liabilities			
Due to banks	11,064,845	10,856,084	208,761
Customer accounts	136,309,688	136,199,037	110,651
Debt securities issued	15,776,244	15,879,046	(102,802)
Eurobonds issued	974,489	1,028,237	(53,748)
Subordinated borrowings and Eurobonds	9,865,828	8,955,785	910,043
Total unrecognized change in fair value			94,264

For such items of the interim condensed consolidated statement of financial position as "Cash and cash equivalents", "Mandatory cash balances with the Central Bank of the Russian Federation", "Due to the Central Bank of the Russian Federation", "Other financial liabilities" and "Amounts received from DIA", the fair value is deemed to be equal to the carrying amount and, therefore, is not disclosed in the table above.

27. Fair value measurement (continued)

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position as at 31 December 2015. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2015		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,386,992	1,434,178	47,186
Loans to customers	121,281,708	120,751,326	(530,382)
Other financial assets	2,335,490	2,270,982	(64,508)
Financial liabilities			
Due to banks	16,283,510	15,862,276	421,234
Customer accounts	111,975,885	113,533,992	(1,558,107)
Debt securities issued	16,014,933	16,086,617	(71,684)
Eurobonds issued	1,027,256	1,045,448	(18,192)
Other borrowings	99,107	88,438	10,669
Subordinated borrowings and Eurobonds	10,309,218	9,356,437	952,781
Total unrecognized change in fair value			(811,003)

For such items of the interim condensed consolidated statement of financial position as “Cash and cash equivalents”, “Mandatory cash balances with the Central Bank of the Russian Federation”, “Due to the Central Bank of the Russian Federation”, “Other financial liabilities”, the fair value is deemed to be equal to the carrying amount and, therefore, is not disclosed in the table above.

28. Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Bank is a part of a group of related parties. These related parties are ultimately controlled by individuals, none of whom holds a controlling interest in any entity within this group of related parties. Transactions with the members of such group of related parties are disclosed in the table below as transactions with other related parties.

Banking transactions are entered into with significant shareholders, directors and other related parties. These transactions include settlements, loans, deposit taking, trade financing and foreign currency transactions.

The Group is under significant influence of the Government of the Republic of Tatarstan, and in the ordinary course of business it cooperates with various companies controlled by the Government of the Republic of Tatarstan. Transactions with companies controlled or significantly influenced by the Government of the Republic of Tatarstan comprise loans, current accounts, deposits and subordinated borrowings.

28. Related party transactions (continued)

At 30 June 2016, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Cash and cash equivalents (contractual interest rate: 11%)	—	—	105,569	—	105,569
Due from banks (contractual interest rate: 1%-11%)	—	—	436,344	—	436,344
Financial instruments at fair value through profit or loss (Note 8)	—	—	7,790,770	—	7,790,770
Loans to customers, gross (contractual interest rate: 7%-25%)	5,202,445	25,846	7,954,483	113,965	13,296,739
Allowance for loan impairment	(185,088)	(59)	(820,503)	(4,168)	(1,009,818)
Investments available for sale	625,190	—	—	—	625,190
Other assets	997,413	58	2,485,708	527	3,483,706
Due to banks (contractual interest rate: 11%-12%) (Note 13)	—	—	(6,301,444)	—	(6,301,444)
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(8,847)	(3,767)	(212,525)	(31)	(225,170)
- Term deposits (contractual interest rate: 1%-12%)	(2,721)	(3,722)	(2,839)	(153,990)	(163,272)
Other liabilities	—	—	(2,211)	—	(2,211)
Subordinated borrowings (contractual interest rate: 8%-12%) (Note 17)	(1,349,996)	—	—	(4,516,963)	(5,866,959)
Obligation to repurchase interest in a subsidiary	—	—	(32,065)	—	(32,065)
Non-controlling interests	(1,353,228)	—	(144,281)	—	(1,497,509)
- Within liabilities	(1,340,967)	—	(72,473)	—	(1,413,440)
- Within equity	(12,261)	—	(71,808)	—	(84,069)
Obligation to repurchase loans assigned	—	—	524,291	—	524,291

As at 30 June 2016, loans in the amount of RUB 11,271,519 thousand (31 December 2015: RUB 8,437,857 thousand) before allowance for impairment issued to the related parties of the Group were partially or fully unsecured.

As at 30 June 2016, loans in the amount of RUB 9,696,749 thousand (31 December 2015: RUB 7,908,013 thousand) net of impairment allowance in the amount of RUB 711,965 thousand (31 December 2015: RUB 770,152 thousand) were issued to financial companies that are related parties of the Group, as these financial companies are controlled or significantly influenced by the Group's shareholders or key management personnel. These loans are secured by collateral of various investments not traded in an active market and other assets in the total amount of RUB 1,055,970 thousand (31 December 2015: RUB 2,162,537 thousand).

As at 30 June 2016, recorded on the Group's balance sheet are forward contracts with one shareholder, which has significant influence, for supply of US dollars totaling USD 70 million (31 December 2015: none). As at 30 June 2016, fair value of these financial instruments recorded in other assets was RUB 997,410 thousand (31 December 2015: none).

As at 30 June 2016, surety agreements from the Group's related parties for the amount of RUB 4,523,399 thousand (31 December 2015: RUB 10,527,109 thousand) (Note 28) and surety agreements from the minority shareholders for the amount of RUB 10,440,000 thousand (31 December 2015: nil) were received on loans to customers in the amount of RUB 14,949,647 thousand (31 December 2015: RUB 9,943,238 thousand).

28. Related party transactions (continued)

Income and expenses for the six months ended 30 June 2016 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	136,785	2,237	356,227	9,014	504,263
Interest expense	(77,573)	(2,485)	(212,180)	(234,058)	(526,296)
Reversal of allowance/ (allowance) for impairment of assets	6,009	14	(106,537)	769	(99,745)
Fee and commission income	6,212	54	16,204	23	22,493
Fee and commission expense	(826)	—	(3,131)	—	(3,957)
Net gains from foreign currencies	1,464	3,069	—	—	4,533
Gains from derivative financial instruments	1,149,090	—	—	—	1,149,090
Other operating income	—	—	558	—	558
Administrative and other operating expenses	—	(215)	(59)	(619)	(893)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	—	—	(984)	—	(984)
Profit (loss) attributable to non-controlling interests	(930)	—	(5,449)	—	(6,379)

Aggregate amounts lent to and repaid by related parties during the six months ended 30 June 2016 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the six months of 2016	766,946	1,351	1,747,710	—	2,516,007
Amounts repaid by related parties during the six months of 2016	(220,957)	(5,797)	(369,150)	(3,334)	(599,238)

28. Related party transactions (continued)

At 31 December 2015, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Due from banks (contractual interest rate: 1%)	—	—	397,604	—	397,604
Financial instruments at fair value through profit or loss (Note 8)	—	—	8,027,643	—	8,027,643
Loans to customers, gross (contractual interest rate: 7%-25%)	4,656,456	30,292	6,575,923	117,299	11,379,970
Allowance for loan impairment	(191,097)	(73)	(713,966)	(4,937)	(910,073)
Investments available for sale (contractual interest rate: 15%)	911,132	—	—	—	911,132
Other assets	—	3	93	808	904
Due to banks (contractual interest rate: 11%-15%) (Note 13)	—	—	(5,648,169)	—	(5,648,169)
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(87,842)	(6,030)	(30,819)	(51)	(124,742)
- Term deposits (contractual interest rate: 1%-14.5%)	(48,209)	(69,716)	(14,030)	(70,303)	(202,258)
Other liabilities	—	—	(1,589)	—	(1,589)
Subordinated borrowings (contractual interest rate: 8%-12%) (Note 17)	(1,249,997)	—	—	(4,516,965)	(5,766,962)
Obligation to repurchase interest in a subsidiary	—	—	(32,076)	—	(32,076)
Non-controlling interests	(1,481,540)	—	(148,603)	—	(1,630,143)
- Within liabilities	(1,468,373)	—	(71,490)	—	(1,539,863)
- Within equity	(13,167)	—	(77,113)	—	(90,280)
Contingencies	—	—	98,405	—	98,405

Income and expenses for the six months ended 30 June 2015 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	63,952	1,525	396,608	8,476	470,561
Interest expense	(47,502)	(4,458)	(315,454)	(88,944)	(456,358)
Reversal of allowance/ (allowance) for impairment of assets	(135,425)	17	619,764	(109)	484,247
Fee and commission income	360	121	719	13	1,213
Fee and commission expense	—	—	(9,853)	—	(9,853)
Net gains from foreign currencies	102	10	11	—	123
Losses from derivative financial instruments	(171,256)	—	—	—	(171,256)
Other operating income	—	3	704	240	947
Administrative and other operating expenses	(2,220)	(325)	(26)	—	(2,571)
Profit (loss) attributable to non-controlling interests	338	—	3,812	—	4,150

28. Related party transactions (continued)

Aggregate amounts lent to and repaid by related parties during the six months ended 30 June 2015 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the year	2,441,535	1,603	1,808,284	15,000	4,266,422
Amounts repaid by related parties during the year	(27,564)	(2,065)	(3,217,475)	(16,673)	(3,263,777)
Change in related parties	–	1,718	2,464	–	4,182

Compensations to key management for the six months ended 30 June 2016 and 30 June 2015 are presented below:

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Salaries	14,608	14,677
Short-term bonuses	3,819	1,632
Total	18,427	16,309

29. Events after the end of the interim period

The Group continued to implement measures under the plan for additional capitalization. On 18 July 2016, PJSC “Kazanorgsintez”, a member of the group of companies of OJSC “TAIF”, placed a subordinated borrowing with the Bank for RUB 4,000,000 thousand for eight years bearing an interest rate of 10% p.a.

On 21 July and 28 July 2016, JSC “Tatspirotprom” acquired 250 million registered ordinary shares in the Bank from the current shareholders of PJSC “Tatfondbank” for RUB 10 per share in the total amount of RUB 2,500,000 thousand (17.33% of the share capital). JSC “Tatspirotprom” is 100%-owned by JSC “Sviazinvestneftekhim”, the sole shareholder of which is the Republic of Tatarstan. On 22 July and 29 July 2016, the Bank’s shareholders used the full amount of funds received from the sale of the shares to increase the Bank’s tier 1 capital under the agreement to increase net assets.

On 29 July 2016, an Extraordinary General Meeting of the Bank’s shareholders approved the increase in the share capital through an additional issue and public placement of 300 million registered ordinary shares with a total nominal value of RUB 3,000,000 thousand. The terms of the placement and payment, as well as the procedure for concluding agreements during the placement are determined by a decision on the additional issue. On 8 September 2016, the Bank’s Board of Directors approved the respective decision on the additional issue of registered ordinary uncertificated shares and the Prospectus.

PJSC “Tatfondbank”

Consolidated financial statements

*for the year ended 31 December 2015
with independent auditors' report*

Contents

Independent auditors’ report

Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive income.....	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows.....	4

Notes to the consolidated financial statements

1	Introduction	5
2	Operating environment of the Group	6
3	Basis of preparation.....	7
4	Summary of accounting policies	8
5	Adjustments in the financial statements.....	22
6	Business combinations.....	25
7	Cash and cash equivalents.....	26
8	Due from banks	26
9	Financial instruments at fair value through profit or loss.....	27
10	Derivative financial instruments	30
11	Securities lent	30
12	Loans to customers	30
13	Investments available for sale	38
14	Investment property	39
15	Property and equipment	40
16	Other assets	42
17	Due to banks	43
18	Customer accounts.....	43
19	Debt securities issued.....	44
20	Eurobonds issued	45
21	Other borrowings	46
22	Other liabilities	46
23	Subordinated borrowings and Eurobonds.....	46
24	Share capital.....	47
25	Interest income and expense.....	48
26	Fee and commission income and expense.....	48
27	Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	49
28	Allowance for impairment	49
29	Administrative and other operating expenses.....	49
30	Income tax expense.....	49
31	Segment analysis	51
32	Financial risk management.....	54
33	Capital management.....	71
34	Commitments and contingencies.....	72
35	Fair value measurement.....	75
36	Offsetting of financial instruments.....	81
37	Related party transactions	82
38	Subsidiaries	86
39	Events after the reporting date	89

Independent auditors' report

To the Shareholders and Board of Directors of
PJSC "Tatfondbank"

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of matter

We draw attention to the fact that, as disclosed in Note 5 to the consolidated financial statements, the consolidated financial statements of PJSC "Tatfondbank" for the year ended 31 December 2015 were revised on 14 October 2016. Our opinion is not qualified in respect of this matter.



14 October 2016

Moscow, Russia

PJSC "Tatfondbank"
Consolidated statement of financial position
as at 31 December 2015
(in thousands of Russian rubles)

	Notes	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	7	13,579,727	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	8	891,824	1,067,447
Due from banks	8	1,386,992	1,189,970
Financial instruments at fair value through profit or loss:			
- Held by the Group	9	19,715,034	24,382,225
- Pledged as collateral under sale and repurchase agreements	9	8,618,303	7,931,456
Securities lent	11	656,365	1,477,238
Loans to customers	12	121,281,708	96,723,817
Investments available for sale:			
- Held by the Group	13	6,705,716	4,912,886
- Pledged as collateral under sale and repurchase agreements	13	3,012,640	-
Investment property	14	1,172,106	1,492,917
Property and equipment	15	1,309,606	1,315,168
Deferred tax asset	30	-	286,295
Other assets	16	3,172,326	3,275,973
Total assets		181,502,347	160,468,201
Liabilities			
Due to the Central Bank of the Russian Federation	17	16,264,946	13,004,610
Due to banks	17	16,283,510	11,938,756
Customer accounts	18	111,975,885	90,160,326
Debt securities issued	19	16,014,933	20,400,059
Eurobonds issued	20	1,027,256	3,820,534
Other borrowings	21	99,107	1,195,682
Other liabilities	22	457,264	531,670
Deferred tax liabilities	30	950,119	814,451
Subordinated borrowings and Eurobonds	23	10,309,218	6,600,369
Obligation to repurchase interest in a subsidiary		114,153	114,153
Non-controlling interests		1,921,239	1,627,379
Total liabilities		175,417,630	150,207,989
Equity			
Share capital	24	14,934,618	13,111,618
Revaluation reserve for investments available for sale		(178,158)	(182,700)
Revaluation reserve for buildings		191,914	196,208
Accumulated deficit		(9,030,709)	(3,029,524)
Total equity attributable to the equity holders of the Bank		5,917,665	10,095,602
Non-controlling interests		167,052	164,610
Total equity		6,084,717	10,260,212
Total liabilities and equity		181,502,347	160,468,201

Approved for issue and signed on behalf of the Management Board on 14 October 2016.

R.I. Nasyrov
First Deputy Chairman of
the Management Board



S.G. Korchagina
Chief Accountant

PJSC "Tatfondbank"
Consolidated statement of comprehensive income
for the year ended 31 December 2015
(in thousands of Russian rubles)

	Notes	2015	2014
Interest income	25	19,885,161	14,226,351
Interest expense	25	(18,456,139)	(10,536,543)
Net interest income		1,429,022	3,689,808
Fee and commission income	26	1,776,762	1,913,913
Fee and commission expense	26	(390,047)	(321,673)
Net fee and commission income		1,386,715	1,592,240
Net (losses)/gains from financial instruments at fair value through profit or loss		(108,712)	50,164
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	27	(306,101)	(512,820)
Net gains/(losses) from investments available for sale		673,528	(18,918)
Net (losses)/gains from investment property	14	(8,754)	414,513
Other operating income		85,867	96,104
Allowance for impairment	28	(6,793,090)	(3,411,822)
Expenses on assignment of claims		–	(367,462)
Administrative and other operating expenses	29	(3,607,628)	(3,821,664)
Expenses from the placement of financial instruments at below-market interest rates		(25,699)	(873,044)
Financial result from the sale of subsidiaries	38	–	1,562,998
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds		(93,870)	138,161
Net gains from the acquisition/disposal of subsidiaries	6	1,314,574	–
Loss before tax		(6,054,148)	(1,461,742)
Income tax (expense)	30	(371,006)	5,305
Loss for the period		(6,425,154)	(1,456,437)
Attributable to:			
- Equity holders of the Bank		(6,427,596)	(1,454,526)
- Non-controlling interests		2,442	(1,911)
Other comprehensive (loss)/income			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Investments available for sale, including:			
- Net change in fair value		4,927	(134,361)
- Net change in fair value transferred to profit or loss		750	(192,243)
Income tax effect		(1,135)	65,322
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		4,542	(261,282)
Other comprehensive loss		4,542	(261,282)
Total comprehensive loss		(6,420,612)	(1,717,719)
Attributable to:			
- Equity holders of the Bank		(6,423,054)	(1,715,808)
- Non-controlling interests		2,442	(1,911)

PJSC "Tatfondbank"
Consolidated statement of changes in equity
for the year ended 31 December 2015
(in thousands of Russian rubles)

	Attributable to equity holders of the Bank				Total	Non-controlling interests	Total equity
	Share capital	Revaluation reserve for investments available for sale	Revaluation reserve for buildings	Accumulated deficit			
Balance at 1 January 2014	13,111,618	78,582	200,501	(1,467,592)	11,923,109	166,521	12,089,630
Loss before other comprehensive loss	-	-	-	(1,454,526)	(1,454,526)	(1,911)	(1,456,437)
Other comprehensive loss							
Net change in fair value of investments available for sale, net of income tax	-	(107,488)	-	-	(107,488)	-	(107,488)
Disposal of investments available for sale, net of income tax	-	(153,794)	-	-	(153,794)	-	(153,794)
Total other comprehensive loss, net of income tax	-	(261,282)	-	-	(261,282)	-	(261,282)
Total comprehensive loss	-	(261,282)	-	(1,454,526)	(1,715,808)	(1,911)	(1,717,719)
Amounts due to shareholders, net of income tax	-	-	-	704,022	704,022	-	704,022
Transfer of revaluation of buildings	-	-	(4,293)	4,293	-	-	-
Disposal of non-controlling interest in a subsidiary	-	-	-	25,080	25,080	-	25,080
Sale of interest in a subsidiary	-	-	-	(840,801)	(840,801)	-	(840,801)
Balance at 31 December 2014	13,111,618	(182,700)	196,208	(3,029,524)	10,095,602	164,610	10,260,212
Loss before other comprehensive income	-	-	-	(6,427,596)	(6,427,596)	2,442	(6,425,154)
Other comprehensive income							
Net change in fair value of investments available for sale, net of income tax	-	3,942	-	-	3,942	-	3,942
Disposal of investments available for sale, net of income tax	-	600	-	-	600	-	600
Total other comprehensive income, net of income tax	-	4,542	-	-	4,542	-	4,542
Total comprehensive loss	-	4,542	-	(6,427,596)	(6,423,054)	2,442	(6,420,612)
Share capital contribution	1,823,000	-	-	-	1,823,000	-	1,823,000
Amounts due to shareholders	-	-	-	650,000	650,000	-	650,000
Payments to shareholders	-	-	-	(227,883)	(227,883)	-	(227,883)
Transfer of revaluation of buildings	-	-	(4,294)	4,294	-	-	-
Balance at 31 December 2015	14,934,618	(178,158)	191,914	(9,030,709)	5,917,665	167,052	6,084,717

The accompanying notes are an integral part of these consolidated financial statements.

PJSC "Tatfondbank"
Consolidated statement of cash flows
for the year ended 31 December 2015
(in thousands of Russian rubles)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		19,977,242	13,511,163
Interest paid, excluding interest paid on debt securities issued		(15,904,268)	(7,253,614)
Fees and commissions received		1,781,057	1,920,025
Fees and commissions paid		(393,789)	(318,341)
Net payments on financial instruments at fair value through profit or loss		(108,953)	(2,359,334)
Net receipts from foreign currencies		731,889	1,252,973
Net (payments on) / receipts from derivative financial instruments		(1,118,111)	951,216
Net receipts from precious metals		11,077	16,446
Other operating receipts		75,442	74,606
Staff costs		(1,750,663)	(1,877,927)
Other administrative and operating payments		(1,939,298)	(2,221,206)
Income tax paid		(23,885)	(234,780)
Cash flows from operating activities before changes in operating assets and liabilities		1,337,740	3,461,227
Changes in operating assets and liabilities			
Net decrease (increase) in mandatory cash balances with the Central Bank of the Russian Federation		175,623	(195,496)
Net increase in due from banks		(387,315)	(1,045,784)
Net decrease (increase) in financial instruments at fair value through profit or loss		4,775,031	(14,081,499)
Net increase in loans to customers		(28,591,132)	(15,340,674)
Net decrease (increase) in other assets		214,490	(207,275)
Net increase in due to the Central Bank of the Russian Federation		3,260,108	6,481,313
Net increase in due to banks		3,385,478	5,867,329
Net increase in customer accounts		18,600,317	22,185,744
Net increase (decrease) in promissory notes issued		700,473	(7,052,385)
Net (decrease) increase in other liabilities		(1,122,626)	93,003
Net cash from operating activities		2,348,187	165,503
Cash flows from investing activities			
Acquisition of investments available for sale		(3,422,178)	(1,462,871)
Proceeds from sale of investments available for sale		1,010,452	2,868,827
Acquisition of investment property		(19,588)	(133,277)
Proceeds from sale of investment property		344,503	34,473
Proceeds from sale of a subsidiary		–	19,756
Purchase of property and equipment	15	(134,628)	(175,707)
Proceeds from sale of property and equipment		15,678	13,641
Dividends received		129	329
Net cash (used in) from investing activities		(2,205,632)	1,165,171
Cash flows from financing activities			
Proceeds from issue of bonds		11,075,973	12,362,833
Repayment/repurchase of bonds		(15,272,790)	(11,472,772)
Proceeds from sale of deposit certificates		–	54,500
Repayment of deposit certificates		–	(54,500)
Proceeds from issue of Eurobonds		–	2,515,023
Proceeds from sale of interest in a subsidiary		–	282,270
Repayment/repurchase of Eurobonds		(3,437,709)	–
Proceeds from subordinated borrowings		2,667,000	2,166,612
Issue of ordinary shares		1,823,000	–
Amounts due to shareholders		650,000	880,028
Payments to shareholders		(227,883)	–
Interest paid on debt securities issued		(2,564,115)	(2,050,460)
Net cash (used in) from financing activities		(5,286,524)	4,683,534
Effect of exchange rate changes on cash and cash equivalents		2,310,887	1,572,548
Net (decrease) increase in cash and cash equivalents		(2,833,082)	7,586,756
Cash and cash equivalents at the beginning of the reporting period	7	16,412,809	8,826,053
Cash and cash equivalents at the end of the reporting period	7	13,579,727	16,412,809

The accompanying notes are an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements of Public Joint Stock Company “Tatfondbank” (the “Bank”) and its subsidiaries (together referred to as the “Group”) are prepared as at and for the year ended 31 December 2015.

The Bank is a public joint stock company incorporated in accordance with Russian regulations in the Russian Federation (“RF”).

The Bank accepts deposits from the public and extends credits, transfers payments in the Russian Federation, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the “CBR”) since 1994. The Bank participates in the State deposit insurance scheme.

The Bank is licensed by the Federal Financial Markets Service of the Russian Federation for trading in securities.

As at 31 December 2015, the Bank has 5 branches, 35 operational offices, 58 additional offices and 1 operational cash desk in the Russian Federation (31 December 2014: 5 branches, 38 operational offices, 64 additional offices and 1 operational cash desk).

The Bank’s registered address is Chernyshevskogo Street, 43/2, Kazan, Republic of Tatarstan (RT), Russian Federation, 420111.

As at 31 December 2015 and 2014, the corporate subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			2015	2014
CJSC “TFB Aktiv”	Securities trading and financial intermediation	RF, Kazan	100.00%	100.00%
IC “TFB-Finance” LLC	Asset management	RF, Kazan	68.00%	68.00%
PJSC NCB “Radiotechbank”	Banking	RF, Nizhny Novgorod	29.85%	29.85%
TFB Finance Limited	Eurobond issue	Ireland, Dublin	–	–
CJSC “Mortgage Agent TFB-1”	Finance	RF, Moscow	9.99%	–
“Gazovik” LLC	Agriculture	RF, Bogorodskoe	100.00%	–

On 28 June 2013, the Bank received offers from equity holders of PJSC NCB “Radiotechbank” to purchase shares of PJSC NCB “Radiotechbank” over a period of three years and obtain controlling interest. Besides, the Bank has certain powers on the Board of Directors of PJSC NCB “Radiotechbank”. As a result, as at 31 December 2015 and 2014, PJSC NCB “Radiotechbank” has been included in these consolidated financial statements as a fully consolidated subsidiary (Note 38).

TFB Finance Limited is a structured entity established to raise borrowings in the international securities markets. The Group consolidates TFB Finance Limited using the full consolidation method.

CJSC “Mortgage Agent TFB1” is a structured entity of the Bank incorporated for the purpose of securitizing the Bank’s mortgage loans. The company was formed in 2014. The Group consolidates CJSC “Mortgage Agent TFB1” using the full consolidation method.

On 31 July 2015, the Bank acquired 100% interest in the share capital of “Gazovik” LLC (Note 6).

The Group holds controlling stakes in certain closed-end mutual investment funds. These funds are unincorporated subsidiaries. The assets of the funds comprise investments available for sale, loans, investment property and other assets. Assets held by these funds are included in these consolidated financial statements.

1 Introduction (continued)

As at 31 December 2015 and 31 December 2014, the unincorporated subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			2015	2014
Closed-end real estate mutual investment fund "TFB Aktiv"	Investment	RF, Kazan	100.00%	100.00%
Closed-end combined mutual fund "TFB-Dalnovidny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end bank loan mutual fund "Kreditnye Investitsii"	Investment	RF, Kazan	–	100.00%
Closed-end private equity mutual fund "Professional"	Investment	RF, Kazan	75.76%	100.00%
Closed-end real estate mutual investment fund "Nash Novy Dom"	Investment	RF, Kazan	–	100.00%
Closed-end real estate mutual investment fund "Priozerny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end real estate mutual investment fund "TFB-Investitsionny"	Investment	RF, Kazan	93.68%	93.68%
Closed-end bank loan mutual fund "Tekhnologii Investitsiy" (former Closed-end bank loan mutual fund "Ak Bars Creditny Capital")	Investment	RF, Kazan	62.76%	62.76%

In the first half of 2015, Closed-end bank loan mutual fund "Kreditnye Investitsii" ceased its operations. The Bank, as an owner of investment units, received monetary compensation of RUB 269,179 thousand as a result of distributing the fund's remaining property in proportion to the number of investment units.

In the second half of 2015, Closed-end real estate mutual investment fund "Nash Novy Dom" ceased its operations. The Bank, as an owner of investment units, received monetary compensation of RUB 811,618 thousand as a result of distributing the fund's remaining property in proportion to the number of investment units.

In December 2015, as a result of the additional issue of investment units of Closed-end private equity mutual fund "Professional", the Group's interest decreased to 75.76%.

In the first half of 2014, the Group increased its share of investments in the units of Closed-end real estate mutual investment fund "TFB-Investitsionny" from 92.48% to 93.68%. As a result, as at 31 December 2014, the non-controlling interest amounted to RUB 70,034 thousand.

In the second half of 2014, the Group decreased its share of investments in the units of Closed-end bank loan mutual fund "Tekhnologii Investitsiy" from 100% to 92.29%. As a result, as at 31 December 2014, the non-controlling interest amounted to RUB 317,151 thousand. The Group sold a 32% interest in its subsidiary, IC "TFB-Finance" LLC, and, as a result, the Group's interest in Closed-end bank loan mutual fund "Tekhnologii Investitsiy" as at 31 December 2014 was 62.76%.

2 Operating environment of the Group

The Group operates primarily in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

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

Deteriorating operating conditions for borrowers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

2 Operating environment of the Group (continued)

The amount of loan impairment allowance is based on management's assessment of such loans at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs to obtain and sell the collateral. The Russian market for many types of collateral, especially real estate, has been affected by the volatility in global financial markets and general economic downturn resulting in a decreased level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value used in estimating impairment allowances.

The fair value of investments quoted in active markets is based on current bid prices (financial assets) or ask prices (financial liabilities). As a result of the recent volatility in financial markets, for some financial instruments there are no more regular transactions on an arm's length basis, therefore, management believes that some financial instruments are no longer quoted in an active market. If there is no active market for financial instruments, the Group determines fair value using different valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The objective of the valuation technique is to determine what the transaction price would have been on the valuation date in an arm's length exchange motivated by normal business considerations. Valuation models reflect current market conditions at the valuation date which may not be representative of market conditions either before or after the valuation date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets and economic uncertainties. Management believes it is taking all appropriate measures to support the sustainability and growth of business in the current circumstances.

In 2015, the Russian economy was negatively impacted by a significant drop in oil prices, a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of the Russian Federation raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3 Basis of preparation

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that buildings are stated at revalued amounts, and financial instruments at fair value through profit or loss, certain investments available for sale and investment property are stated at fair values.

Functional and presentation currency. The functional currency of the Bank and its subsidiaries is the Russian ruble, as, being the national currency of the Russian Federation, it best reflects the nature of most operations and related conditions, having an impact on the Group's activities. The functional currency of TFB Finance Limited is the euro, and its presentation currency is the US dollar. These consolidated financial statements are presented in Russian rubles (RUB), rounded to the nearest thousand.

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 for making judgments 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 may ultimately differ from these estimates.

3 Basis of preparation (continued)

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

Management prepared these consolidated financial statements on a going concern basis. In making this judgment, management considered the financial position, current intentions, profitability of operations, access to financial resources, including support from the Government of the Republic of Tatarstan and other authorities, and analyzed the impact of the financial crisis on future operations of the Group. Refer to Note 32 for analysis of the liquidity position as at 31 December 2015.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRSs that have a significant effect on the amounts recognized in these consolidated financial statements are described in the following notes:

- ▶ Note 12 "Loans to customers" in respect of loan impairment allowance
- ▶ Note 13 "Investments available for sale" in respect of valuation of financial instruments.

4 Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, with the exception of changes in accounting policies as explained at the end of this note.

Subsidiaries. Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern, directly or indirectly, the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Structured entities. Structured entities are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates that the structured entity is controlled by the Group, even if the Group does not have any direct or indirect interest in the entity.

Investments in mutual funds. The Group has controlling stakes in closed-end mutual investment funds not constituting businesses. The assets of the funds mainly comprise investments available for sale, loans, investment property and other assets. The Group consolidates mutual investment funds controlled by the Group.

Funds management. The Group manages and administers assets held in mutual investment funds and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements, except when the Group controls such entity.

Non-controlling interest of mutual funds. Non-controlling interest of mutual funds represents stakes in subsidiaries not attributable, directly or indirectly, to the Bank.

Non-controlling interest of mutual funds is presented in the consolidated statement of financial position as a liability, as the Group has an obligation to repurchase this interest in certain cases. In its consolidated financial statements the Group recognizes acquisitions and disposals of interest attributable to non-controlling shareholders of subsidiaries as transactions with creditors. Results from transactions with non-controlling interest of mutual funds and changes in the non-controlling interest resulting from changes in net assets of the funds are recognized as income or expense in profit (or loss) for the period.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate effective at that date.

4 Summary of accounting policies (continued)

Gains or losses from transactions with monetary assets and liabilities denominated in a foreign currency are the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated to the functional currency at the exchange rate effective at the end of the reporting period. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated to the functional currency at the exchange rate effective at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency at the exchange rates effective at the dates of fair value determination. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

As at 31 December 2015, the principal exchange rates used for translating foreign currency balances were RUB 72.8827 to USD 1 and RUB 79.6972 to EUR 1 (31 December 2014: RUB 56.2584 to USD 1 and RUB 68.3427 to EUR 1).

Hyperinflation accounting. The Russian economy ceased to be hyperinflationary starting from 1 January 2003 and, accordingly, no inflation adjustments have been made for the periods subsequent to this date.

Classification of financial assets and liabilities. Financial assets and liabilities are classified as follows:

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

- ▶ Acquired or incurred principally for the purpose of selling or repurchasing in the near term
- ▶ Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- ▶ Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or
- ▶ Upon initial recognition, designated as at fair value through profit or loss.

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

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

All derivative financial instruments held for trading that are in a net receivable position (positive fair value) as well as options purchased are reported as assets. All derivative financial instruments held for trading that are in a net payable position (negative fair value) as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- ▶ Intends to sell immediately or in the near term
- ▶ Upon initial recognition designates as at fair value through profit or loss
- ▶ Upon initial recognition designates as available-for-sale; or
- ▶ May not recover substantially all of its initial investment, other than because of credit deterioration.

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- ▶ The Group upon initial recognition designates as at fair value through profit or loss
- ▶ The Group designates as available-for-sale; or
- ▶ Meet the definition of loans and receivables.

4 Summary of accounting policies (continued)

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of at fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

Subsequent to initial recognition, financial assets, including derivatives that are classified as assets, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- ▶ Loans and receivables which are measured at amortized cost using the effective interest method
- ▶ Held-to-maturity investments that are measured at amortized cost using the effective interest method
- ▶ Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such instruments are recorded in the consolidated financial statements at historical cost.

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 amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principle. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

4 Summary of accounting policies (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration paid or received.

If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- ▶ If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., Level 1 inputs) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as gain or loss
- ▶ In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the deferred difference as gain or loss only when the inputs become observable, or the instrument is derecognized.

Assets and long positions are measured at bid price; liabilities and short positions are measured at ask price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group's entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent remeasurement. Gains or losses arising from a change in the fair value of a financial asset or liability are recognized as follows:

- ▶ A gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- ▶ A gain or loss on a financial asset available for sale is recognized as other comprehensive income in equity (except for impairment losses and foreign currency gains and losses on debt financial instruments available for sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest income in relation to a financial asset available for sale is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, or through the amortization process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- ▶ The rights to receive cash flows from the asset have expired
- ▶ The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4 Summary of accounting policies (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Repurchase and reverse repurchase agreements. Securities sold under sale and repurchase ("repo") agreements are treated as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances of banks or current accounts and deposits of customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a liability held for trading and measured at fair value.

Derivative financial instruments. Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and recorded in the consolidated financial statements as a separate derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in profit or loss for the period. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group enters into derivative instruments for risk hedging purposes, the Group does not have a formal hedging strategy that would qualify for hedge accounting.

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

4 Summary of accounting policies (continued)

Precious metals. Precious metals are stated at lower of net realizable value and cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula.

Impairment of financial assets carried at amortized cost. Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables to assess impairment on a regular basis. 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 have occurred after the initial recognition of the loan or receivable and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. Objective evidence that financial assets are impaired may include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or an issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related impairment allowance) when management determines that the loan is uncollectable and when all efforts to collect the loan have been exhausted.

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

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Impairment of investments available for sale. Impairment losses on investments available for sale are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

4 Summary of accounting policies (continued)

Changes in impairment provisions attributable to time value are recorded as a component of interest income.

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

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

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks, and highly liquid financial assets with original maturities of less than one month, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the CBR is not considered to be cash or a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

Amounts due from banks are recorded when the Group advances funds to counterparty banks with no intention of trading in the resulting unquoted non-derivative instruments. Amounts due from banks are due on fixed or determinable dates and are carried at amortized cost.

Due to banks. Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortized cost.

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

Debt securities issued. Debt securities issued include promissory notes, bonds and credit linked notes issued by the Group. Debt securities are stated at amortized cost.

Eurobonds issued. Eurobonds issued represent issued debt securities offered on foreign markets. Eurobonds are carried at amortized cost.

Credit related commitments. In the normal course of business, the Group enters into credit-related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

Financial guarantee liabilities and provisions for other credit-related commitments are included within other liabilities.

Loan commitments are not recognized in the consolidated financial statements, except for the following:

- ▶ Loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- ▶ If the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- ▶ Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- ▶ Commitments to issue loans at a below-market interest rate.

4 Summary of accounting policies (continued)

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss.

When the use of an investment property changes so that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent recording in the consolidated financial statements.

Property and equipment. Items of property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, except for buildings that are recorded at revalued amounts, as described below.

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.

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of buildings subject to revaluation. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income, in which case it is recognized in other comprehensive income.

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

Buildings	50 years
Equipment	5 years

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

Assets classified as held for sale. Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Assets held for sale or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment of non-financial assets. Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing the 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 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 recognized 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 profit or loss and are only reversed if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss 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 amortization, if no impairment loss had been recognized in the consolidated financial statements. An impairment loss in respect of goodwill is not reversed.

4 Summary of accounting policies (continued)

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

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

Share capital. Ordinary shares and preference shares, which are non-redeemable and for which dividends are declared at the shareholders' discretion, are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as share premium.

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized in the consolidated financial statements as a decrease in equity.

Dividends. Dividends in relation to ordinary or preference shares recognized in equity are reflected as an appropriation of retained earnings in the period in which they are declared. Any dividends declared after the reporting date but before the consolidated financial statements are authorized for issue are disclosed in Note 39 "Events after the reporting period". Profit distribution and other appropriations are made on the basis of statutory financial statements.

Income tax. Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income and expense recognition. Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan together with the related transaction costs are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received reduce the total lease expense over the term of the lease.

4 Summary of accounting policies (continued)

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

Changes in accounting policies

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual improvements to IFRS: 2010-2012 cycle

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

IFRS 2 Share-based Payment

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

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

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

4 Summary of accounting policies (continued)

The Group did not apply the aggregation criteria provided in paragraph 12 of IFRS 8. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 32 to these consolidated financial statements, as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IFRS 13 Fair Value Measurement

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

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current period.

IAS 24 Related Party Disclosures

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

Annual improvements to IFRS: 2011-2013 cycle

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

IFRS 3 Business Combinations

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

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

4 Summary of accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

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

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

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

4 Summary of accounting policies (continued)

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to government grants related to bearer plants. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early application permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early application permitted.

Amendments to IAS 1 Disclosure Initiative

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

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

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

4 Summary of accounting policies (continued)

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

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

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

Annual improvements to IFRS: 2012-2014 cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is effective for annual periods beginning on or after 1 January 2016, with early application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment is effective for annual periods beginning on or after 1 January 2016, with early application permitted.

4 Summary of accounting policies (continued)

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

5 Adjustments in the financial statements

On 28 April 2016 the Group's management authorized and issued the Group's consolidated financial statements for the year ended 31 December 2015. Subsequently the Group's consolidated financial statements were revised and authorized for reissuance by the Group's management on 14 October 2016 as a result of the adjustments made to record the following transactions in the consolidated financial statements.

During 2016, the Bank's management determined that gains from available-for-sale shares of a Russian company which were received in 2015 as a result of a transaction with an unrelated company and which were previously recorded within other comprehensive income must be recorded within profit or loss for the period, as the fair value at initial recognition of the shares exceeded the transaction price. In addition, the Bank incorrectly recorded a deferred tax liability for these shares.

During 2016, the Bank's management determined that losses which were incurred by the Group in 2015 from the purchase of shares in a Russian company from a shareholder of the Bank at a price exceeding the fair value and which were previously recorded in other comprehensive income within revaluation reserve for investments available for sale must be treated as payments to shareholders recorded in the consolidated statement of changes in equity.

During 2016, the Bank's management determined that gains received from the acquisition of a subsidiary in 2015 and recorded in the consolidated statement of changes in equity must be recorded within profit or loss for the period, as they do not meet the definition of transactions under common control.

During 2016, the Bank's management also identified that the results from the disposal of subsidiaries in connection with the dissolution of Closed-end real estate mutual investment fund "Nash Novy Dom" and Closed-end bank loan mutual investment fund "Kreditnye Investitsii" were incorrectly recorded within equity and net gains (losses) from financial instruments at fair value through profit or loss.

The total effect of changes on the consolidated statement of financial position as at 31 December 2015 is presented below:

	As previously reported	Effect of adjustment	Restated
Deferred tax liabilities	768,479	181,640	950,119
Total liabilities	175,235,990	181,640	175,417,630
Revaluation reserve for investments available for sale	420,155	(598,313)	(178,158)
Accumulated deficit	(9,447,382)	416,673	(9,030,709)
Total equity attributable to the equity holders of the Bank	6,099,305	(181,640)	5,917,665
Total equity	6,266,357	(181,640)	6,084,717

5 Adjustments in the financial statements (continued)

The total effect on the consolidated statement of comprehensive income for 2015 is presented below.

	As previously reported	Effect of adjustment	Restated
Net (losses)/gains from financial instruments at fair value through profit or loss	(180,265)	71,553	(108,712)
Net gains/(losses) from investments available for sale	(302,247)	975,775	673,528
Net gain from the acquisition of a subsidiary	–	1,314,574	1,314,574
Loss before tax	(8,416,050)	2,361,902	(6,054,148)
Income tax (expense)	(39,787)	(331,219)	(371,006)
Loss for the period	(8,455,837)	2,030,683	(6,425,154)
Attributable to:			
- Equity holders of the Bank	(8,458,279)	2,030,683	(6,427,596)
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Investments available for sale, including:			
- Net change in fair value	1,609,838	(1,604,911)	4,927
- Net change in fair value transferred to profit or loss	(856,269)	857,019	750
Income tax effect	(150,714)	149,579	(1,135)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	602,855	(598,313)	4,542
Other comprehensive income/(loss)	602,855	(598,313)	4,542
Total comprehensive loss	(7,852,982)	1,432,370	(6,420,612)
Attributable to: equity holders of the Bank	(7,855,424)	1,432,370	(6,423,054)

The total effect on the consolidated statement of changes in equity for 2015 is presented below.

	As previously reported	Effect of adjustment	Restated
Loss before other comprehensive income	(8,455,837)	2,030,683	(6,425,154)
Net change in fair value of investments available for sale, net of income tax	1,287,870	(1,283,928)	3,942
Disposal of investments available for sale, net of income tax	(685,015)	685,615	600
Total other comprehensive income/(loss), net of income tax	602,855	(598,313)	4,542
Total comprehensive loss	(7,852,982)	1,432,370	(6,420,612)
Payments to shareholders	–	(227,883)	(227,883)
Disposal of subsidiaries	74,386	(74,386)	–
Acquisition of subsidiaries	1,311,741	(1,311,741)	–
Balance at 31 December 2015	6,266,357	(181,640)	6,084,717

5 Adjustments in the financial statements (continued)

The total effect on the consolidated statement of cash flows for 2015 is presented below.

	As previously reported	Effect of adjustment	Restated
Acquisition of investments available for sale	(3,650,061)	227,883	(3,422,178)
Net cash (used in) from investing activities	(2,433,515)	227,883	(2,205,632)
Payments to shareholders	–	(227,883)	(227,883)
Net cash (used in) from financing activities	(5,058,641)	(227,883)	(5,286,524)

During 2016, the Bank's management determined that income received from deposit forgiveness in 2014, which was previously recorded within other operating income in the consolidated statement of comprehensive income for 2014, must be treated as amounts due to shareholders and must be recorded in the consolidated statement of changes in equity for 2014, net of income tax paid.

During 2016, the Bank's management also determined that changes in non-controlling interests in subsidiaries registered in the form of a limited liability company and in mutual funds for 2014, recorded within loss attributable to non-controlling interests, must be recorded in a separate line of the consolidated statement of comprehensive income for 2014.

The effect of the changes on the consolidated statement of comprehensive income for 2014 is presented below:

	As previously reported	Effect of adjustment	Restated
Other operating income	976,132	(880,028)	96,104
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	–	138,161	138,161
Administrative and other operating expenses	(3,819,664)	(2,000)	(3,821,664)
Loss before tax	(717,875)	(743,867)	(1,461,742)
Income tax (expense) benefit	(170,701)	176,006	5,305
Loss for the period	(888,576)	(567,861)	(1,456,437)
Attributable to:			
- Equity holders of the Bank	(750,504)	(704,022)	(1,454,526)
- Non-controlling interests	(138,072)	136,161	(1,911)

The effect of the changes on the consolidated statement of changes in equity for 2014 is presented below.

	As previously reported	Effect of adjustment	Restated
Loss before other comprehensive loss	(888,576)	(567,861)	(1,456,437)
Amounts due to shareholders	–	704,022	704,022
Sale of interest in a subsidiary	(842,712)	1,911	(840,801)

Proceeds from the sale of a subsidiary in 2014 were incorrectly recorded within cash flows from financing activities in the consolidated statement of cash flows. As a result, the Group's management decided to record these proceeds within cash flows from investing activities in the consolidated statement of cash flows.

5 Adjustments in the financial statements (continued)

The total effect of the above changes on the consolidated statement of cash flows for 2014 is presented below.

	As previously reported	Effect of adjustment	Restated
Net (payments on) proceeds from financial instruments at fair value through profit or loss	(2,361,334)	2,000	(2,359,334)
Other operating receipts	954,634	(880,028)	74,606
Other administrative and operating payments	(2,219,206)	(2,000)	(2,221,206)
Cash flows from operating activities before changes in operating assets and liabilities	4,341,255	(880,028)	3,461,227
Cash flows from operating activities after changes in operating assets and liabilities	1,045,531	(880,028)	165,503
Proceeds from sale of a subsidiary (within investing activities)	–	19,756	19,756
Net cash from investing activities	1,145,415	19,756	1,165,171
Proceeds from sale of a subsidiary (within financing activities)	19,756	(19,756)	–
Amounts due to shareholders	–	880,028	880,028
Net cash from financing activities	3,823,262	860,272	4,683,534

6 Business combinations

On 31 July 2015, the Group acquired a 100% interest in the share capital of "Gazovik" LLC from the associate of the Bank's shareholders for RUB 110,000 thousand. The gain from the acquisition of "Gazovik" LLC amounted to RUB 1,314,574 thousand and is recorded within transactions with related parties (Note 37). "Gazovik" LLC is primarily engaged in crop and livestock production. This company was acquired with the purpose of receiving assets that are highly attractive to investors.

As at 31 December 2015, "Gazovik" LLC has been included in these consolidated financial statements as a fully consolidated subsidiary.

The fair value of identifiable assets and liabilities of "Gazovik" LLC at the date of acquisition is presented in the following table.

Cash and cash equivalents	185
Financial instruments at fair value through profit or loss	1,010,509
Investments available for sale	430,733
Loans to customers	11,184
Property and equipment	79,346
Other assets	117,724
	1,649,681
Due to banks	(124,493)
Deferred tax liabilities	(82,523)
Loans received	(1,473)
Other liabilities	(16,618)
	(225,107)
Total identifiable net assets	1,424,574
Consideration transferred on acquisition	110,000

7 Cash and cash equivalents

	31 December 2015	31 December 2014
Nostro accounts and overnight deposits with the CBR	4,990,732	4,024,298
Cash on hand	4,507,700	5,500,838
Brokerage accounts	3,155,884	1,975,724
Nostro accounts with other banks	858,615	3,269,278
Settlement accounts with trading systems	66,796	70,163
Short-term deposits with other banks	–	1,026,885
Purchase and resale agreements ("reverse repo")	–	545,623
Total cash and cash equivalents	13,579,727	16,412,809

As at 31 December 2015, the Group has one counterparty whose balances individually exceed 10% of total cash and cash equivalents (31 December 2014: one counterparty). The total value of the counterparty's brokerage accounts balances as at 31 December 2015 is RUB 2,668,062 thousand (31 December 2014: RUB 1,678,339 thousand). As at 31 December 2015, amounts due to customers included RUB 1,515,993 thousand payable to the counterparty under repo agreements maturing in January 2016.

Analysis by credit quality of correspondent accounts with other banks and short-term deposits with other banks is as follows:

	31 December 2015	31 December 2014
Nostro accounts and overnight deposits with other banks	858,615	3,269,278
- Top 20 Russian banks	271,837	1,102,872
- Large OECD banks	217,308	1,795,612
- Banks located in the Republic of Tatarstan	206,068	4,445
- Other Russian banks	163,402	366,349
Short-term deposits with other banks	–	1,026,885
- Other Russian banks	–	1,002,685
- Top 20 Russian banks	–	24,200
Total cash and cash equivalents held at other banks	858,615	4,296,163

8 Due from banks

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014
Mandatory cash balances with the Central Bank of the Russian Federation	891,824	1,067,447
Purchase and resale agreements ("reverse repo")	927,941	–
Due from other banks	705,538	1,189,970
Total due from banks before allowance for loan impairment	2,525,303	2,257,417
Allowance for loan impairment	(246,487)	–
Total due from banks net of allowance for loan impairment	2,278,816	2,257,417

As at 31 December 2015, the Group has two banks whose balances individually exceed 10% of the total amount due from banks (31 December 2014: three banks). The total value of balances due from these credit institutions as at 31 December 2015 is RUB 1,384,637 thousand (31 December 2014: RUB 1,011,466 thousand).

As at 31 December 2015, assets under sale and repurchase agreements in the amount of RUB 927,941 thousand (31 December 2014: no) were effectively collateralized by securities with the fair value of RUB 974,186 thousand (31 December 2014: no).

Credit institutions are required to maintain an obligatory reserve with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by the credit institution. Russian law restricts the withdrawability of such reserves by the Bank.

8 Due from banks (continued)

Analysis of amounts due from banks by credit quality is as follows:

	31 December 2015	31 December 2014
Mandatory cash balances with the Central Bank of the Russian Federation	891,824	1,067,447
Purchase and resale agreements ("reverse repo")	927,941	–
Due from other banks		
- Banks located in the Republic of Tatarstan	398,605	707,110
- Other Russian banks	247,761	434,808
- Top 20 Russian banks	59,172	48,052
Allowance for loan impairment	(246,487)	–
Total due from banks net of allowance for loan impairment	2,278,816	2,257,417

9 Financial instruments at fair value through profit or loss

	31 December 2015	31 December 2014
Financial instruments held for trading	19,161,850	23,651,701
Financial instruments designated as at fair value through profit or loss	9,171,487	8,661,980
Total financial instruments at fair value through profit or loss	28,333,337	32,313,681

Financial instruments held for trading

	31 December 2015	31 December 2014
Held by the Group		
Corporate Eurobonds	5,747,688	5,891,003
Corporate bonds	4,770,244	8,787,269
Russian Government Federal Bonds (OFZ)	22,857	1,037,417
Total debt securities	10,540,789	15,715,689
Corporate shares	2,758	4,556
Total equity securities	2,758	4,556
Total financial instruments held for trading and owned by the Group	10,543,547	15,720,245
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	8,033,633	7,931,456
Russian Government Federal Bonds (OFZ)	584,670	–
Total debt securities	8,618,303	7,931,456
Total financial instruments held for trading pledged as collateral under sale and repurchase agreements	8,618,303	7,931,456
Total financial instruments held for trading	19,161,850	23,651,701

Financial instruments held for trading are represented by debt and equity securities.

Corporate Eurobonds are interest-bearing securities denominated in US dollars and issued by Russian companies and banks. As at 31 December 2015, these Eurobonds have maturity dates from February 2017 to June 2019 (31 December 2014: from March 2015 to May 2019) and coupon rates from 5% to 12% p.a. (31 December 2014: from 5% to 12% p.a.).

9 Financial instruments at fair value through profit or loss (continued)

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies and banks. As at 31 December 2015, these bonds have maturity dates from January 2016 to August 2018 (31 December 2014: from January 2015 to August 2018) and coupon rates from 2% to 18% p.a. (31 December 2014: from 6% to 15% p.a.).

Russian Government Federal Bonds (OFZ) are government securities denominated in Russian rubles and issued by the Ministry of Finance of the Russian Federation. As at 31 December 2015, OFZ have maturity dates from January 2016 to February 2036 (31 December 2014: from June 2015 to February 2036) and coupon rates from 6% to 8% p.a. (31 December 2014: from 6% to 8% p.a.).

Equity instruments are represented by shares of Russian companies (31 December 2014: shares of Russian companies and banks).

Financial instruments held for trading pledged as collateral under sale and repurchase agreements can be sold or repledged by the counterparty in accordance with the contractual terms and established practice. As at 31 December 2015, sale and repurchase agreements mature in January 2016 (31 December 2014: January 2015). Related liabilities are recognized in the consolidated statement of financial position in the line "Due to banks" (Note 17) in the amount of RUB 8,692,861 thousand (31 December 2014: RUB 7,675,647 thousand). and in the line "Customer accounts" (Note 18) in the amount of RUB 1,681,808 thousand (31 December 2014: RUB 545,564 thousand).

Financial instruments at fair value through profit or loss

As at 31 December 2015, the total fair value of corporate bonds and Russian Government Federal Bonds (OFZ) pledged as collateral under sale and repurchase agreements is RUB 12,007,770 thousand (31 December 2014: RUB 10,178,839 thousand), including bonds issued by the Group and repurchased by the Group's participants in the amount of RUB 2,101,451 thousand (31 December 2014: none) and bonds received and repledged under sale and repurchase agreements in the amount of RUB 1,288,016 thousand (31 December 2014: RUB 2,247,383 thousand), eliminated for the purposes of these financial statements.

Analysis by credit quality of debt securities held for trading as at 31 December 2015 is as follows:

	OFZ	Corporate bonds	Corporate Eurobonds	Total
Held by the Group				
Other Russian companies	–	4,682,035	755,157	5,437,192
Top 20 Russian banks	–	71,445	4,174,358	4,245,803
Other Russian banks	–	16,764	818,173	834,937
Russian Government	22,857	–	–	22,857
Total debt securities held for trading and owned by the Group	22,857	4,770,244	5,747,688	10,540,789
Pledged as collateral under sale and repurchase agreements				
Other Russian banks	–	4,738,259	–	4,738,259
Top 20 Russian banks	–	2,272,747	–	2,272,747
Other Russian companies	–	1,022,627	–	1,022,627
Russian Government	584,670	–	–	584,670
Total debt securities included in financial securities held for trading pledged as collateral under sale and repurchase agreements	584,670	8,033,633	–	8,618,303
Total debt securities included in financial securities held for trading	607,527	12,803,877	5,747,688	19,159,092

9 Financial instruments at fair value through profit or loss (continued)

Analysis by credit quality of debt securities held for trading as at 31 December 2014 is as follows:

	OFZ	Corporate bonds	Corporate Eurobonds	Total
Held by the Group				
Other Russian companies	–	6,725,891	531,044	7,256,935
Top 20 Russian banks	–	28,551	5,310,292	5,338,843
Other Russian banks	–	2,032,827	49,667	2,082,494
Russian Government	1,037,417	–	–	1,037,417
Total debt securities held for trading and owned by the Group	1,037,417	8,787,269	5,891,003	15,715,689
Pledged as collateral under sale and repurchase agreements				
Other Russian banks	–	7,178,765	–	7,178,765
Top 20 Russian banks	–	410,750	–	410,750
Other Russian companies	–	341,941	–	341,941
Total debt securities included in financial securities held for trading pledged as collateral under sale and repurchase agreements	–	7,931,456	–	7,931,456
Total debt securities included in financial securities held for trading	1,037,417	16,718,725	5,891,003	23,647,145

	31 December 2015	31 December 2014
Equity securities		
Mutual fund units	9,171,487	8,661,980
Total equity securities	9,171,487	8,661,980
Total financial instruments designated as at fair value through profit or loss	9,171,487	8,661,980

Financial instruments designated as at fair value through profit or loss comprise mutual fund units, including units of two related parties to the Group in the amount of RUB 8,027,643 thousand (31 December 2014: mutual fund units of one related party to the Group in the amount of RUB 5,164,027 thousand) (Note 37).

10 Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments recorded as other assets (Note 16) or other liabilities (Note 22) in the financial statements, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2015			31 December 2014		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Precious metals contracts						
Precious metals forwards	138,942	–	(199)	221,895	7,758	(32)
Foreign exchange contracts						
Foreign exchange forwards	13,954,084	50,831	(6,286)	4,538,900	1,355	(7,860)
Securities/stock index contracts						
Securities forwards	169,070	134	–	–	–	–
Foreign exchange futures	–	–	–	81,899	216	(6,623)
Total derivative assets/liabilities	14,262,096	50,965	(6,485)	4,842,694	9,329	(14,515)

As at 31 December 2015 and 31 December 2014, the Group had positions in the following types of derivatives:

Forwards and futures

Forwards and futures are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

11 Securities lent

On 30 September 2015, the Group entered into an agreement on the lending of units in Closed-end rental mutual fund "TFB-Rentnyi Investitsionny Fond" with respective addenda in the amount of RUB 906,843 thousand. Under the agreement with the counterparty, the loan is to be repaid until 20 May 2016. As at 31 December 2015, the fair value of the extended loan was RUB 656,365 thousand (31 December 2014: RUB 1,477,238 thousand).

12 Loans to customers

	31 December 2015	31 December 2014
<i>Loans to corporate entities</i>	<i>114,709,905</i>	<i>85,795,650</i>
Corporate loans	102,287,896	75,769,139
Loans to small and medium enterprises (SME)	8,306,894	8,422,785
Purchase and resale agreements ("reverse repo")	4,115,115	1,603,726
<i>Loans to individuals</i>	<i>24,867,164</i>	<i>25,826,055</i>
Consumer loans	15,579,640	17,172,460
Mortgage loans	7,062,007	5,980,401
Car loans	2,225,517	2,673,194
Total loans to customers, gross	139,577,069	111,621,705
Allowance for loan impairment	(18,295,361)	(14,897,888)
Total loans to customers, net	121,281,708	96,723,817

12 Loans to customers (continued)

Corporate entities are classified as SME based on their revenues and the number of employees. As at 31 December 2015, loans to customers in the total amount of up to RUB 200,000 thousand are usually loans to SME (31 December 2014: RUB 200,000 thousand).

As at 31 December 2015, loans to customers in the amount of RUB 4,115,115 thousand (31 December 2014: RUB 1,603,726 thousand) were effectively collateralized by securities purchased under a reverse repo agreement, with the fair value of RUB 3,435,301 thousand (31 December 2014: RUB 1,678,244 thousand). The Group may repledge the securities purchased under reverse repo agreements but is obliged to return the securities. Reverse repo agreements mature in January 2016 (31 December 2014: January 2015).

In 2015, movements in the allowance for loan impairment were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2015	9,893,510	1,357,430	85,960	3,123,248	238,758	198,982	14,897,888
Allowances for impairment (Note 28)	3,750,548	803,180	87,249	1,625,686	100,922	162,313	6,529,898
Write-off of uncollectible loans	–	(1,779)	–	(14,742)	(102)	–	(16,623)
Assigned loans and loans sold to debt collectors	(473,452)	(690,964)	–	(1,783,642)	(97,157)	(70,587)	(3,115,802)
Balance at 31 December 2015	13,170,606	1,467,867	173,209	2,950,550	242,421	290,708	18,295,361

In 2014, movements in the allowance for loan impairment were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2014	9,496,439	1,303,617	15,803	1,984,222	145,116	120,281	13,065,478
Allowances for impairment (Note 28)	1,240,519	467,617	70,157	1,552,913	111,983	86,963	3,530,152
Write-off of uncollectible loans	–	(7,191)	–	(45,023)	(4,627)	(6,099)	(62,940)
Effect of disposal of a subsidiary	(843,448)	(406,613)	–	(368,864)	(13,714)	(2,163)	(1,634,802)
Balance at 31 December 2014	9,893,510	1,357,430	85,960	3,123,248	238,758	198,982	14,897,888

12 Loans to customers (continued)

Analysis by credit quality of loans to corporate entities as at 31 December 2015 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Corporate loans				
<i>Loans not individually impaired, including:</i>	70,829,040	(2,982,345)	67,846,695	4.2
- Significant	60,794,743	(2,559,992)	58,234,751	4.2
- Significant with excessive collateral	7,272,616	(306,111)	6,966,505	4.2
- Not significant	2,761,681	(116,242)	2,645,439	4.2
<i>Impaired loans, including:</i>	31,458,856	(10,188,261)	21,270,595	32.4
- Not overdue	30,448,638	(9,637,083)	20,811,555	31.7
- Overdue less than 31 days	167,390	(33,478)	133,912	20.0
- Overdue 31 to 90 days	145,213	(116,170)	29,043	80.0
- Overdue 91 to 180 days	12,975	(12,975)	-	100.0
- Overdue 181 to 365 days	440	(352)	88	80.0
- Overdue more than 365 days	684,200	(388,203)	295,997	56.7
Total corporate loans	102,287,896	(13,170,606)	89,117,290	12.9
Loans to SME				
<i>Loans not individually impaired, including:</i>	6,473,470	(272,475)	6,200,995	4.2
- Not significant	6,473,470	(272,475)	6,200,995	4.2
<i>Impaired loans, including:</i>	1,833,424	(1,195,392)	638,032	65.2
- Not overdue	537,078	(152,967)	384,111	28.5
- Overdue less than 31 days	201,230	(60,969)	140,261	30.3
- Overdue 31 to 90 days	330,594	(265,487)	65,107	80.3
- Overdue 91 to 180 days	46,494	(37,195)	9,299	80.0
- Overdue 181 to 365 days	246,349	(207,095)	39,254	84.1
- Overdue more than 365 days	471,679	(471,679)	-	100.0
Total loans to SME	8,306,894	(1,467,867)	6,839,027	17.7
Purchase and resale agreements ("reverse repo")				
<i>Loans not individually impaired, including:</i>	4,115,115	(173,209)	3,941,906	4.2
- Significant	4,115,115	(173,209)	3,941,906	4.2
Total purchase and resale agreements ("reverse repo")	4,115,115	(173,209)	3,941,906	4.2
Total loans to corporate entities	114,709,905	(14,811,682)	99,898,223	12.9

In 2015, the assessment methodology of the credit risk related to loans to corporate entities was amended. In accordance with the amendments, where the sufficient/excessive collateral available, loans individually assessed and with evidence of impairment are classified as unimpaired in the category of not overdue and not impaired loans collectively assessed.

As at 31 December 2015, there were no loans to corporate entities which were overdue, but not impaired (31 December 2014: RUB 111,933 thousand, or RUB 105,933 thousand net of allowance for impairment).

12 Loans to customers (continued)

Analysis by credit quality of loans to individuals as at 31 December 2015 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowances for impairment to gross loans (%)
Consumer loans				
- Not overdue	12,127,459	(109,150)	12,018,309	0.9
- Overdue less than 31 days	448,293	(113,852)	334,441	25.4
- Overdue 31 to 90 days	344,378	(178,201)	166,177	51.7
- Overdue 91 to 180 days	252,282	(188,732)	63,550	74.8
- Overdue 181 to 365 days	546,761	(500,476)	46,285	91.5
- Overdue more than 365 days	1,860,467	(1,860,139)	328	100.0
Total consumer loans	15,579,640	(2,950,550)	12,629,090	18.9
Mortgage loans				
- Not overdue	6,536,454	(16,707)	6,519,747	0.3
- Overdue less than 31 days	141,979	(7,568)	134,411	5.3
- Overdue 31 to 90 days	69,039	(12,584)	56,455	18.2
- Overdue 91 to 180 days	52,781	(22,825)	29,956	43.2
- Overdue 181 to 365 days	106,284	(75,554)	30,730	71.1
- Overdue more than 365 days	155,470	(155,470)	-	100.0
Total mortgage loans	7,062,007	(290,708)	6,771,299	4.1
Car loans				
- Not overdue	1,906,202	(8,463)	1,897,739	0.4
- Overdue less than 31 days	47,906	(4,318)	43,588	9.0
- Overdue 31 to 90 days	34,962	(11,156)	23,806	31.9
- Overdue 91 to 180 days	32,434	(20,009)	12,425	61.7
- Overdue 181 to 365 days	48,769	(43,231)	5,538	88.6
- Overdue more than 365 days	155,244	(155,244)	-	100.0
Total car loans	2,225,517	(242,421)	1,983,096	10.9
Total loans to individuals	24,867,164	(3,483,679)	21,383,485	14.0

Management uses its experience and judgment to estimate the amount of impairment allowance for loans to corporate customers. Management estimates the impairment allowance for loans to corporate customers based on an analysis of future cash flows from impaired loans and based on its past loss experience on portfolios of loans for which no indications of impairment are identified on an individual basis. In determining the impairment allowance for loans for which no specific indications of impairment have been identified, management makes estimates of losses incurred using the past historic losses adjusted as necessary for the current economic environment.

When collateral is used to estimate the expected future cash flows, the estimated value of collateral is discounted by 20-30 percent to reflect current market conditions, and the expected foreclosure period is from 1 to 2 years.

Management estimates the impairment allowance for loans to individuals based on its past historical loss experience on these types of loans.

A significant assumption used by management in determining the allowance for impairment of loans to individuals is that loss migration rates are constant and can be estimated based on the historic loss pattern for the past 12 months.

Changes in these estimates could affect the allowance for loan impairment. For example, to the extent that the net present value of the estimated cash flows changes by minus/plus one percent, the impairment allowance for loans to corporate entities as at 31 December 2015 would be RUB 998,982 thousand higher/lower and the impairment allowance for loans to individuals would be RUB 213,835 thousand higher/lower, respectively (31 December 2014: RUB 744,588 thousand and RUB 222,651 thousand, respectively).

12 Loans to customers (continued)

Should actual loan payments be less than those estimated by management, the Group will be required to recognize additional loan impairment losses.

Analysis by credit quality of loans to corporate entities as at 31 December 2014 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Corporate loans				
<i>Loans not individually impaired, including:</i>	55,963,749	(2,999,651)	52,964,098	5.4
- Significant	46,396,935	(2,486,871)	43,910,064	5.4
- Significant with excessive collateral	7,323,370	(392,532)	6,930,838	5.4
- Not significant	2,243,444	(120,248)	2,123,196	5.4
<i>Impaired loans, including:</i>	19,805,390	(6,893,859)	12,911,531	34.8
- Not overdue	18,595,819	(6,215,345)	12,380,474	33.4
- Overdue less than 31 days	254,558	(135,046)	119,512	53.1
- Overdue 31 to 90 days	264,804	(264,505)	299	99.9
- Overdue 91 to 180 days	12,975	(12,975)	-	100.0
- Overdue 181 to 365 days	614,258	(203,012)	411,246	33.0
- Overdue more than 365 days	62,976	(62,976)	-	100.0
Total corporate loans	75,769,139	(9,893,510)	65,875,629	13.1
Loans to SME				
<i>Loans not individually impaired, including:</i>	6,935,674	(371,751)	6,563,923	5.4
- Not significant	6,935,674	(371,751)	6,563,923	5.4
<i>Impaired loans, including:</i>	1,487,111	(985,679)	501,432	66.3
- Not overdue	302,875	(132,189)	170,686	43.6
- Overdue less than 31 days	234,283	(52,884)	181,399	22.6
- Overdue 31 to 90 days	164,658	(131,726)	32,932	80.0
- Overdue 91 to 180 days	189,620	(151,696)	37,924	80.0
- Overdue 181 to 365 days	392,987	(314,496)	78,491	80.0
- Overdue more than 365 days	202,688	(202,688)	-	100.0
Total loans to SME	8,422,785	(1,357,430)	7,065,355	16.1
Purchase and resale agreements ("reverse repo")				
<i>Loans not individually impaired, including:</i>	1,603,726	(85,960)	1,517,766	5.4
- Significant	1,603,726	(85,960)	1,517,766	5.4
Total purchase and resale agreements ("reverse repo")	1,603,726	(85,960)	1,517,766	5.4
Total loans to corporate entities	85,795,650	(11,336,900)	74,458,750	13.2

12 Loans to customers (continued)

Analysis by credit quality of loans to individuals as at 31 December 2014 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowances for impairment to gross loans (%)
Consumer loans				
- Not overdue	13,543,532	(141,298)	13,402,234	1.0
- Overdue less than 31 days	456,532	(103,486)	353,046	22.7
- Overdue 31 to 90 days	315,368	(184,368)	131,000	58.5
- Overdue 91 to 180 days	382,949	(296,303)	86,646	77.4
- Overdue 181 to 365 days	853,638	(777,352)	76,286	91.1
- Overdue more than 365 days	1,620,441	(1,620,441)	-	100.0
Total consumer loans	17,172,460	(3,123,248)	14,049,212	18.2
Mortgage loans				
- Not overdue	5,661,584	(18,276)	5,643,308	0.3
- Overdue less than 31 days	65,456	(4,122)	61,334	6.3
- Overdue 31 to 90 days	28,039	(7,608)	20,431	27.1
- Overdue 91 to 180 days	85,847	(38,046)	47,801	44.3
- Overdue 181 to 365 days	46,320	(37,775)	8,545	81.6
- Overdue more than 365 days	93,155	(93,155)	-	100.0
Total mortgage loans	5,980,401	(198,982)	5,781,419	3.3
Car loans				
- Not overdue	2,332,988	(11,872)	2,321,116	0.5
- Overdue less than 31 days	73,718	(7,537)	66,181	10.2
- Overdue 31 to 90 days	32,658	(10,980)	21,678	33.6
- Overdue 91 to 180 days	31,966	(17,565)	14,401	54.9
- Overdue 181 to 365 days	62,342	(51,282)	11,060	82.3
- Overdue more than 365 days	139,522	(139,522)	-	100.0
Total car loans	2,673,194	(238,758)	2,434,436	8.9
Total loans to individuals	25,826,055	(3,560,988)	22,265,067	13.8

12 Loans to customers (continued)

The Group accepts deposits with the Bank, real estate, traded securities, motor vehicles, inventories, equipment and other assets as the main types of collateral. The structure of the gross loan portfolio by type of collateral as at 31 December 2015 is as follows:

	Corporate loans	Loans to SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Mortgage loans	Car loans	Total
Loans to corporate entities not individually impaired/not overdue loans to individuals	70,829,040	6,473,470	4,115,115	12,127,459	6,536,454	1,906,202	101,987,740
<i>Secured loans</i>	<i>28,301,417</i>	<i>5,410,558</i>	<i>4,115,115</i>	<i>570,592</i>	<i>6,536,454</i>	<i>1,906,202</i>	<i>46,840,338</i>
- Cash deposit	3,504,009	10,543	-	2,312	-	-	3,516,864
- Securities not traded in an active market	4,817,495	153,023	3,371,783	8,254	-	-	8,350,555
- Real estate	6,040,780	3,654,136	-	34,430	6,198,820	720	15,928,886
- Motor vehicles	813,826	296,708	-	904	411	1,903,577	3,015,426
- Equipment	677,931	558,698	-	231	3,166	-	1,240,026
- Biological assets	8,058	-	-	-	-	-	8,058
- Inventories	800,738	169,347	-	34,080	-	-	1,004,165
- Other assets	2,220,860	222,039	-	273,603	332,042	-	3,048,544
- Partially unsecured	9,417,720	346,064	743,332	216,778	2,015	1,905	10,727,814
<i>Unsecured loans</i>	<i>42,527,623</i>	<i>1,062,912</i>	<i>-</i>	<i>11,556,867</i>	<i>-</i>	<i>-</i>	<i>55,147,402</i>
Impaired loans to corporate entities/overdue loans to individuals	31,458,856	1,833,424	-	3,452,181	525,553	319,315	37,589,329
<i>Secured loans</i>	<i>18,450,824</i>	<i>1,079,175</i>	<i>-</i>	<i>236,326</i>	<i>525,553</i>	<i>318,951</i>	<i>20,610,829</i>
- Cash deposit	1,946,072	-	-	-	-	-	1,946,072
- Securities not traded in an active market	2,907,705	35,017	-	-	-	-	2,942,722
- Real estate	2,005,725	591,999	-	19,717	448,649	-	3,066,090
- Motor vehicles	5,927	76,479	-	1,883	-	315,686	399,975
- Equipment	75,126	31,091	-	-	-	-	106,217
- Inventories	891,674	51,936	-	1,243	-	-	944,853
- Other assets	3,153,774	5,143	-	171,060	71,222	-	3,401,199
- Partially unsecured	7,464,821	287,510	-	42,423	5,682	3,265	7,803,701
<i>Unsecured loans</i>	<i>13,008,032</i>	<i>754,249</i>	<i>-</i>	<i>3,215,855</i>	<i>-</i>	<i>364</i>	<i>16,978,500</i>
Total loans to customers, gross	102,287,896	8,306,894	4,115,115	15,579,640	7,062,007	2,225,517	139,577,069

12 Loans to customers (continued)

The structure of the gross loan portfolio by type of collateral as at 31 December 2014 is as follows:

	Corporate loans	Loans to SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Mortgage loans	Car loans	Total
Loans to corporate entities not individually impaired/not overdue loans to individuals	55,963,749	6,935,674	1,603,726	13,543,532	5,661,584	2,332,988	86,041,253
<i>Secured loans</i>	<i>24,046,244</i>	<i>4,718,798</i>	<i>1,603,726</i>	<i>72,954</i>	<i>5,661,584</i>	<i>2,332,786</i>	<i>38,436,092</i>
- Cash deposit	780,001	80,137	-	3,253	-	-	863,391
- Securities not traded in an active market	5,636,332	129,775	1,603,537	7,773	-	-	7,377,417
- Real estate	6,302,926	3,023,784	-	18,415	4,497,167	387	13,842,679
- Motor vehicles	128,750	324,044	-	3,608	600	2,311,128	2,768,130
- Equipment	530,659	335,762	-	381	-	-	866,802
- Biological assets	72,799	-	-	-	-	-	72,799
- Inventories	1,440,179	71,342	-	33,027	-	-	1,544,548
- Other assets	2,060,458	370,459	-	5,059	1,161,255	-	3,597,231
- Partially unsecured	7,094,140	383,495	189	1,438	2,562	21,271	7,503,095
<i>Unsecured loans</i>	<i>31,917,505</i>	<i>2,216,876</i>	<i>-</i>	<i>13,470,578</i>	<i>-</i>	<i>202</i>	<i>47,605,161</i>
Impaired loans to corporate entities/overdue loans to individuals	19,805,390	1,487,111	-	3,628,928	318,817	340,206	25,580,452
<i>Secured loans</i>	<i>10,029,897</i>	<i>729,832</i>	<i>-</i>	<i>18,907</i>	<i>318,817</i>	<i>340,058</i>	<i>11,437,511</i>
- Cash deposit	339,408	-	-	-	-	-	339,408
- Securities not traded in an active market	2,199,723	-	-	-	-	-	2,199,723
- Real estate	669,993	421,571	-	14,559	247,366	853	1,354,342
- Motor vehicles	2,831	73,748	-	462	-	333,527	410,568
- Equipment	46,323	82,961	-	-	-	-	129,284
- Inventories	252,712	6,903	-	2,689	-	-	262,304
- Other assets	3,905,172	-	-	92	69,263	-	3,974,527
- Partially unsecured	2,613,735	144,649	-	1,105	2,188	5,678	2,767,355
<i>Unsecured loans</i>	<i>9,775,493</i>	<i>757,279</i>	<i>-</i>	<i>3,610,021</i>	<i>-</i>	<i>148</i>	<i>14,142,941</i>
Total loans to customers, gross	75,769,139	8,422,785	1,603,726	17,172,460	5,980,401	2,673,194	111,621,705

The table above represents the carrying amount of loans covered by collateral (excluding overcollateralization) that may differ from the fair value of collateral at the reporting date. The fair value of collateral is determined at the inception of the loan and adjusted for subsequent changes in accordance with the Group's internal guidance approved by management. Depending on the type of collateral, the Group applies certain discount rates to estimate the value of collateral at the reporting date.

Partially unsecured loans represent a portion of the loan which is not covered by collateral.

Mortgage loans are secured by the underlying real estate and property rights. Car loans are secured by the underlying cars. The Group's policy is that the fair value of collateral should exceed the loan amount by at least 10% for mortgage loans and 10% for car loans.

The value of residential real estate at the reporting date was estimated by indexing the amounts determined by personnel of the Collateral and Asset Department at loan inception subject to the average changes in the residential real estate prices in the respective city or region. The value of other real estate and other assets is determined by the Collateral and Asset Department using internal guidelines.

Mortgage loans in relation to construction in progress are secured by related rights to property under construction. In the table above, these loans are shown as loans secured by other assets.

12 Loans to customers (continued)

As at 31 December 2015 and 2014, the loan portfolio structure by industry is as follows:

	31 December 2015		31 December 2014	
	Amount	%	Amount	%
Trade	43,098,903	31	32,024,244	29
Finance	29,193,446	21	19,197,143	17
Individuals	24,867,164	18	25,826,055	23
Real estate	13,478,079	10	12,435,387	11
Construction and manufacturing	9,399,799	7	4,061,145	4
Food industry	6,595,814	5	4,215,816	4
Agriculture	4,933,040	3	5,800,419	5
Light industry	2,270,407	1	1,616,604	1
Sports	2,107,018	1	2,107,006	2
Transport	731,362	1	852,457	1
Hospitality and catering	502,087	–	603,362	1
Leasing	283,250	–	261,001	–
Other	2,116,700	2	2,621,066	2
Total loans to customers, gross	139,577,069	100	111,621,705	100

As at 31 December 2015, the total amount of unsecured and partially secured loans issued to corporate entities and small and medium enterprises (net of allowance) was RUB 63,522,018 thousand (31 December 2014: RUB 45,830,044 thousand).

As at 31 December 2015, the Group had 74 borrowers (31 December 2014: 50 borrowers) with the amount of loans extended to every borrower in excess of RUB 500,000 thousand. The total aggregate amount of those loans was RUB 89,540,670 thousand (31 December 2014: RUB 63,243,414 thousand) or 64% of the gross loan portfolio (31 December 2014: 57%).

13 Investments available for sale

	31 December 2015	31 December 2014
Held by the Group		
Corporate bonds	4,053,760	3,555,576
Total debt securities	4,053,760	3,555,576
Corporate shares	2,050,847	1,177,221
Interest in share capital	430,731	–
Mutual fund units	170,378	180,089
Total equity instruments	2,651,956	1,357,310
Total investments available for sale held by the Group	6,705,716	4,912,886
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	3,012,640	–
Total investments available for sale pledged as collateral under sale and repurchase agreements	3,012,640	–
Total investments available for sale	9,718,356	4,912,886

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies and banks (31 December 2014: Russian companies). As at 31 December 2015, these bonds have maturity dates from January 2016 to May 2018 (31 December 2014: from May to November 2015) and coupon rates from 13% to 18% p.a. (31 December 2014: 14% p.a.).

13 Investments available for sale (continued)

Equity instruments are represented by shares of Russian companies, shares of a Russian bank, interest in the share capital of a Russian company and units of a mutual fund (31 December 2014: are represented by shares of Russian companies, shares of a foreign company, shares of a Russian bank and units of a mutual fund).

Investments available for sale pledged as collateral under sale and repurchase agreements can be sold or repledged by the counterparty in accordance with the contractual terms and established practice. As at 31 December 2015, sale and repurchase agreements mature in January 2016 (31 December 2014: no such agreements). Related liabilities are recognized in the consolidated statement of financial position in the line "Due to banks" (Note 17) in the amount of RUB 3,148,696 thousand (31 December 2014: none).

As at 31 December 2015, the total fair value of corporate bonds pledged as collateral under sale and repurchase agreements is RUB 3,731,584 thousand (31 December 2014: none), including bonds issued by the Group and repurchased by the Group's participants in the amount of RUB 718,944 thousand (31 December 2014: none) eliminated for the purposes of these financial statements.

The fair value of quoted debt securities available for sale is determined based upon prices in the active market. If the fair value of debt securities available for sale cannot be determined based on the market quotations, it is determined using the discounted cash flow method. Cash flows are discounted at market discount rates consisting of a base (risk-free) rate and a corporate risk premium. The risk-free discount rate for debt instruments is the yield to maturity for risk-free securities with corresponding maturities. A corporate risk premium is determined in accordance with the issuer creditworthiness evaluation methodology approved by management. For more information on discount rates refer to Note 35.

For the year ended 31 December 2015, the Group recognized RUB 1,070,621 thousand (31 December 2014: none) of impairment loss on equity securities available for sale in the consolidated statements of comprehensive income in line "Net (losses) from investments available for sale".

14 Investment property

	Land	Real estate	Total
Fair value at 1 January 2014	336,209	808,394	1,144,603
Acquisitions	97,575	35,702	133,277
Revaluation	187,529	61,981	249,510
Disposals	(18,222)	(16,251)	(34,473)
Fair value at 31 December 2014	603,091	889,826	1,492,917
Acquisitions	18,281	1,307	19,588
Transfers from other assets		12,860	12,860
Revaluation	17,401	32,470	49,871
Disposals	(305,327)	(97,803)	(403,130)
Fair value at 31 December 2015	333,446	838,660	1,172,106

The Group has units in closed-end real estate mutual investment funds "TFB-Aktiv", "TFB-Investitziionny" and "Priozerny". The assets of the funds comprise warehouses, office centers, non-residential and residential buildings and land plots. The Group recognizes assets held by the funds and by PJSC NCB "Radiotechbank" as investment property held for capital appreciation.

Investment property is valued by management based on the results of valuation performed by an independent, professionally qualified appraiser who has experience in appraising similar properties.

To evaluate investment property, the Bank uses three main conceptual approaches provided for by federal law: comparative, income, and cost methods.

The cost method is based on the substitution principle according to which the buyer will not pay for the property more than the cost of acquiring a site and constructing a similar building in terms of its intended use and quality without any significant delay. The direct comparative analysis of sales is based on the substitution principle according to which an informed buyer would not pay for the property more than the purchase price of another property, which, from the point of view of the buyer, is equally attractive and has similar consumer characteristics.

14 Investment property (continued)

The income approach allows to determine the value of the property by assessing the quantity, quality and duration of the benefits to be obtained from the property during the forecast period.

The total market value of the property is calculated by assigning weights to the results obtained.

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

(Expense)/income from investment property recognized in the statement of comprehensive income comprises:

	2015	2014
Revaluation gain	49,871	249,510
(Loss)/gain on disposal	(58,625)	165,003
Total	(8,754)	414,513

15 Property and equipment

Movements in property and equipment for the year ended 31 December 2015 are presented in the following table:

	Buildings	Office and computer equipment	Construction in progress (CIP) and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2015	732,281	1,285,597	52,784	2,070,662
Additions	13,548	–	121,080	134,628
Acquisition through business combination	43,121	36,225	–	79,346
Disposals	(261)	(104,514)	–	(104,775)
Transfer from CIP	120	163,487	(163,607)	–
At 31 December 2015	788,809	1,380,795	10,257	2,179,861
Depreciation				
At 1 January 2015	(15,715)	(739,779)	–	(755,494)
Depreciation charge for the year (Note 29)	(15,799)	(190,800)	–	(206,599)
Depreciation of disposed property and equipment	–	91,838	–	91,838
At 31 December 2015	(31,514)	(838,741)	–	(870,255)
Carrying amount at 31 December 2015	757,295	542,054	10,257	1,309,606

15 Property and equipment (continued)

Movements in property and equipment for the year ended 31 December 2014 are presented in the following table:

	Buildings	Office and computer equipment	Construction in progress (CIP) and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2014	731,902	1,152,816	90,578	1,975,296
Additions	–	–	175,707	175,707
Disposals	(829)	(79,512)	–	(80,341)
Transfer from CIP	1,208	212,293	(213,501)	–
At 31 December 2014	732,281	1,285,597	52,784	2,070,662
Depreciation				
At 1 January 2014	(663)	(646,318)	–	(646,981)
Depreciation charge for the year (Note 29)	(15,065)	(162,774)	–	(177,839)
Depreciation of disposed property and equipment	13	69,313	–	69,326
At 31 December 2014	(15,715)	(739,779)	–	(755,494)
Carrying amount at 31 December 2014	716,566	545,818	52,784	1,315,168

As at 31 December 2015, fully depreciated items in the amount of RUB 350,899 thousand (31 December 2014: RUB 358,135 thousand) are included in office and computer equipment.

The Group engaged an independent appraiser to determine the fair value of its buildings. Market value was determined using three basic conceptual approaches: the income, market and cost approaches (provided for by federal law).

Under the income approach, valuation is based on the principle that real estate value is directly related to the present value of all future net income that the real estate item is expected to generate.

Under the market approach, the market value of an asset is determined by analyzing recent sales of comparable real estate properties, similar by size and use to the subject property. This valuation technique assumes that the market will set the price for the subject property similarly to comparable peer properties.

The cost approach is applied when there is a possibility to replace the subject asset by another asset that is either an exact replica of the original subject asset or that provides similar utility. If the subject asset's value tends to decrease due to its physical condition or functional and economic obsolescence, depreciation and all types of obsolescence are to be considered when applying the cost approach.

Changes in the estimates could affect the cost of buildings. For example, a plus/minus ten percent change in the net present value of the estimated cash flows will increase/decrease the value of buildings by RUB 78,881 thousand as at 31 December 2015 (31 December 2014: RUB 71,657 thousand).

Included in the carrying amount of buildings is RUB 191,914 thousand (31 December 2014: RUB 196,208 thousand) representing a revaluation surplus.

Construction in progress consists mainly of construction and refurbishment of branch and office premises. Equipment not put in use represents office and computer equipment which the Group has not yet started to use. Upon completion/putting into operation, these assets are transferred to the corresponding category of property and equipment.

16 Other assets

	31 December 2015	31 December 2014
Other financial assets		
Settlements on transactions with securities	1,753,159	1,650,827
Plastic cards receivables	200,314	301,681
Settlements with suppliers and contractors	183,990	295,386
Finance lease receivables	75,471	106,635
Derivative financial instruments (Note 10)	50,965	9,329
Receivables in transactions with bank guarantees	40,554	38,559
State duty	33,241	18,885
Receivables on payments for commemorative coins	16,553	10,850
Other	37,738	39,674
Allowance for impairment of other financial assets	(5,530)	(5,626)
Total other financial assets	2,386,455	2,466,200
Other non-financial assets		
Inventories	308,368	328,418
Capitalized software development costs	277,333	277,333
Software maintenance	192,262	194,237
Prepaid income tax	95,379	143,503
Precious metals	77,944	79,063
Biological assets	56,133	–
Other taxes prepaid	36,472	29,715
Assets classified as held for sale	11,467	20,850
Other	24,543	13,987
Allowance for impairment of other non-financial assets	(294,030)	(277,333)
Total other non-financial assets	785,871	809,773
Total other assets	3,172,326	3,275,973

Assets classified as inventories include part of collateral in the amount of RUB 258,360 thousand repossessed by the Group from debtors due to their default on overdue loans (31 December 2014: RUB 191,274 thousand and apartments owned by Closed-end real estate mutual investment fund "Nash Novy Dom" in the amount of RUB 137,144 thousand). In accordance with IAS 2 *Inventories*, the Group measures these assets at the lower of cost and net realizable value.

Assets classified as held for sale in the amount of RUB 11,467 thousand (31 December 2014: RUB 20,850 thousand) are represented by collateral repossessed by the Group from debtors due to their default on overdue loans. The Group is actively marketing these assets and expects to finalize their sale within one year from the date of classification. Property is offered on the market at a price comparable to its current fair value.

Movements in the allowance for impairment of other assets in 2015 and 2014 were as follows:

	2015	2014
Balance at 1 January	282,959	401,475
(Reversal of allowance) for impairment of other financial assets	–	(118,330)
Allowance for impairment of other non-financial assets	16,705	–
Other assets written off against allowance	(104)	(186)
Balance at 31 December	299,560	282,959

17 Due to banks

	31 December 2015	31 December 2014
Due to the Central Bank of the Russian Federation	16,264,946	13,004,610
Sale and repurchase agreements	10,463,712	7,610,720
Term deposits	5,801,234	5,393,890
Due to banks	16,283,510	11,938,756
Term deposits of banks	14,733,731	11,754,426
Sale and repurchase agreements	1,377,845	64,927
Loro accounts and overnight deposits of banks	171,934	119,403
Total due to banks	32,548,456	24,943,366

As at 31 December 2015, due to banks includes amounts from three banks (31 December 2014: four banks) whose balances individually exceed 10% of total due to banks. The total value of balances due to these credit institutions as at 31 December 2015 is RUB 12,219,998 thousand (31 December 2014: RUB 10,043,048 thousand).

As at 31 December 2015, due to banks includes amounts received from JSC "Russian Bank for Small and Medium Enterprises Support" for the purpose of providing loans to SMEs in the amount of RUB 3,259,166 thousand (31 December 2014: RUB 2,275,438 thousand), or 20% (31 December 2014: 19%) of the total amount due to banks. These liabilities mature from 4 March 2016 to 29 July 2022 (31 December 2014: from 25 June 2015 to 10 March 2021). Interest rates vary from 6% to 11% p.a. (31 December 2014: from 6% to 9% p.a.). Outstanding balances of loans issued using the funds received from JSC "Russian Bank for Small and Medium Enterprises Support" amount to RUB 3,010,767 thousand (31 December 2014: RUB 2,056,736 thousand).

As at 31 December 2015, liabilities under sale and repurchase agreements in the amount of RUB 11,841,557 thousand (31 December 2014: RUB 7,675,647 thousand) were effectively collateralized by securities with the fair value of RUB 13,962,191 thousand (31 December 2014: RUB 9,406,583 thousand) (Notes 9, 11).

As at 31 December 2015, amounts due to banks include RUB 5,648,169 thousand (31 December 2014: RUB 3 699 582 thousand) received from a related party (Note 37).

18 Customer accounts

	31 December 2015	31 December 2014
Corporate entities	35,155,036	30,425,214
- Term deposits	26,619,033	23,216,602
- Current/settlement accounts	6,854,195	6,663,048
- Sale and repurchase agreements	1,681,808	545,564
Individuals	76,820,849	59,735,112
- Term deposits	72,570,973	55,843,689
- Current accounts / demand accounts	4,249,876	3,891,423
Total customer accounts	111,975,885	90,160,326

As at 31 December 2015, liabilities of RUB 1,681,808 thousand under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 1,777,163 thousand (31 December 2014: liabilities of RUB 545,564 thousand under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 772,256 thousand).

18 Customer accounts (continued)

Industry concentrations within customer accounts are as follows:

	31 December 2015		31 December 2014	
	Amount	%	Amount	%
Individuals	76,820,849	70	59,735,112	67
Construction and manufacturing	18,410,427	17	17,662,068	20
Finance	4,977,934	4	3,004,655	3
Trade	3,147,465	2	2,695,394	3
State owned companies	1,066,878	1	153,062	–
Food industry	1,044,137	1	1,133,651	1
Real estate	944,051	1	1,302,465	1
Transport	524,645	–	532,870	1
Agriculture	262,000	–	202,084	–
Hospitality and catering	129,674	–	36,531	–
Leasing	21,547	–	36,235	–
Legal services	1,555	–	56,710	–
Other	4,624,723	4	3,609,489	4
Total customer accounts	111,975,885	100	90,160,326	100

As at 31 December 2015, the Group has eleven customers (31 December 2014: seven customers) with balances exceeding RUB 500,000 thousand. The total value of these balances amounts to RUB 21,581,474 thousand (31 December 2014: RUB 18,453,252 thousand), or 19% (31 December 2014: 20%) of total customer accounts.

19 Debt securities issued

	31 December 2015	31 December 2014
Russian ruble-denominated bonds	13,172,021	19,369,024
Russian ruble-denominated promissory notes	1,648,836	844,504
Mortgage-backed bonds	1,035,569	–
Foreign currency-denominated promissory notes	158,507	186,531
Total debt securities issued	16,014,933	20,400,059

As at 31 December 2015, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal value	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2015
Exchange-traded bonds of seventh issue	3,131,591	2,926,176	8 February 2013	5 February 2016	17.00	5 February 2016
Exchange-traded bonds of eighth issue	2,236,459	2,122,795	10 October 2013	6 October 2016	17.00	6 October 2016
Exchange-traded bonds of eleventh issue	3,732,382	3,559,690	17 September 2013	13 September 2016	14.00	13 September 2016
Exchange-traded bonds of thirteenth issue	2,066,407	2,000,000	3 April 2015	21 March 2025	15.00	7 April 2016
Exchange-traded bonds of fourteenth issue	1,012,788	1,001,022	10 June 2015	28 May 2025	13.50	13 December 2016
Exchange-traded bonds of fifteenth issue	992,394	1,000,000	24 December 2014	11 December 2024	13.50	27 December 2016
Mortgage-backed bonds	1,035,569	1,044,880	16 January 2015	26 March 2047	11.00	as scheduled
Total RUB-denominated bonds issued	14,207,590					

19 Debt securities issued (continued)

As at 31 December 2014, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal value	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2014
Exchange-traded bonds of fourth issue	3,123,879	3,000,000	21 February 2012	17 February 2015	11.50	–
Exchange-traded bonds of fifth issue	2,059,663	2,000,000	10 April 2012	7 April 2015	12.50	–
Exchange-traded bonds of sixth issue	2,050,783	2,000,000	16 October 2012	13 October 2015	12.30	–
Exchange-traded bonds of seventh issue	2,076,859	2,000,000	8 February 2013	5 February 2016	11.50	12 February 2015
Exchange-traded bonds of eighth issue	3,059,151	3,000,000	10 October 2013	6 October 2016	11.80	15 April 2015
Exchange-traded bonds of eleventh issue	3,991,767	3,854,327	17 September 2013	13 September 2016	12.30	21 September 2015
Exchange-traded bonds of fifteenth issue	3,006,922	3,000,000	24 December 2014	11 December 2024	14.00	29 December 2015
Total RUB-denominated bonds issued	19,369,024					

The volumes of bonds partially repurchased at the offer date and bonds sold are presented below:

	31 December 2015		31 December 2014	
	Early redemption	Sale of own bonds	Early redemption	Sale of own bonds
Exchange-traded bonds of third issue	–	–	–	35,477
Exchange-traded bonds of fourth issue	–	–	1,982,979	1,982,979
Exchange-traded bonds of fifth issue	–	–	640,404	640,575
Exchange-traded bonds of sixth issue	–	–	1,417,824	1,417,910
Exchange-traded bonds of seventh issue	1,142,257	1,141,433	793,445	793,445
Exchange-traded bonds of eighth issue	534,302	534,097	–	–
Exchange-traded bonds of eleventh issue	2,848,452	2,972,443	2,638,120	2,492,447
Exchange-traded bonds of fourteenth issue	1,748,978	1,428,000	–	–
Exchange-traded bonds of fifteenth issue	1,998,801	–	–	–
Total RUB-denominated bonds issued	8,272,790	6,075,973	7,472,772	7,362,833

Promissory notes denominated in Russian rubles and foreign currencies are represented by discount, interest-bearing and interest free securities issued by the Group. These promissory notes mature from January 2016 to April 2020 (31 December 2014: from January 2015 to February 2016). The effective interest rate varies from 5% to 16% p.a. (31 December 2014: from 3% to 28% p.a.).

20 Eurobonds issued

On 28 April 2014, the Group placed three-year Eurobonds for the amount of USD 70 million with a yield of 11% p.a. On 27 October 2015, Eurobonds in the amount of USD 55 million were early repaid under an offer. As at 31 December 2015, the amortized cost of Eurobonds was RUB 1,027,256 thousand (31 December 2014: RUB 3,820,534 thousand).

As agreed upon between the parties, the Group is required to comply with the following financial covenants:

- ▶ Full compliance with the CBR obligatory ratios and other requirements
- ▶ Ratio of capital to risk-weighted assets of at least 11%.

As at 31 December 2015, actual ratio of capital to risk-weighted assets is 10.57% (Note 33). Since most of Eurobonds were repaid under the offer, the Group doesn't believe the redemption of the remainder will be demanded.

21 Other borrowings

Other borrowings include loans received from other corporations in the amount of RUB 99,107 thousand (31 December 2014: RUB 1,195,682 thousand).

22 Other liabilities

Other liabilities comprise the following:

	31 December 2015	31 December 2014
Other financial liabilities		
Settlements on transactions with financial instruments	150,411	279,240
Payroll payable	114,020	46,488
Obligatory deposit insurance contributions	71,850	56,394
Plastic cards payables	23,515	34,827
Derivative financial instruments (Note 10)	6,485	14,515
Fees on bank guarantees issued	3,758	7,891
Other	9,301	31,540
Total other financial liabilities	379,340	470,895
Other non-financial liabilities		
Other taxes payable	77,924	60,775
Total other non-financial liabilities	77,924	60,775
Total other liabilities	457,264	531,670

23 Subordinated borrowings and Eurobonds

	Date of receipt	Repayment date	Interest rate, % p.a.	Effective interest rate, %	31 December 2015	31 December 2014
Subordinated borrowing	21 December 2010	1 August 2019	8.00	8.30	2,099,997	2,099,995
Subordinated borrowing	18 July 2013	23 January 2020	9.25	9.65	999,997	999,995
Subordinated Eurobonds	7 August 2014	–	12.50	12.50	4,542,256	3,500,379
Subordinated borrowing	28 July 2015	28 July 2025	12.00	12.68	2,416,968	–
Subordinated borrowing	27 November 2015	27 November 2025	10.50	11.02	250,000	–
Total subordinated borrowings and Eurobonds					10,309,218	6,600,369

On 30 June 2014, the maturity of subordinated borrowings totaling RUB 2,099,997 thousand was extended until 1 August 2019.

On 7 August 2014, the Group issued perpetual subordinated Eurobonds in the amount of USD 60 million with an interest rate of 12.5% p.a. to a limited number of private and institutional investors.

In the event of the Group's bankruptcy, these borrowings will be repaid after the claims of all other creditors are settled.

As at 31 December 2015, subordinated borrowings of RUB 5,766,962 thousand (31 December 2014: RUB 6,600,369 thousand) were received from three related parties (Note 37).

24 Share capital

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian ruble, as at 31 December 2015 is RUB 14,423,000 thousand (31 December 2014: RUB 12,600,000 thousand). The authorized share capital of the Bank consists of 4,817,700,000 ordinary shares with a nominal value of RUB 10 per share. The issued share capital of the Bank comprises 1,442,300,000 ordinary shares (31 December 2014: 1,260,000,000 ordinary shares) with a nominal value of RUB 10 per share. Each share carries one vote.

In November 2014, shareholders of the Bank approved an issue of 400,000,000 ordinary shares. This share issue was registered by the CBR on 31 March 2015. Assets received in consideration for these shares consisted of cash in the total amount of RUB 1,823,000 thousand. On 4 December 2015, the CBR registered the Report on the issue.

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares		Nominal value		Inflation adjustment	Total
	Preference	Ordinary	Preference	Ordinary		
At 31 December 2013	–	1,260,000,000	–	12,600,000	511,618	13,111,618
Change	–	–	–	–	–	–
At 31 December 2014	–	1,260,000,000	–	12,600,000	511,618	13,111,618
Issue of share capital	–	182,300,000	–	1,823,000	–	1,823,000
At 31 December 2015	–	1,442,300,000	–	14,423,000	511,618	14,934,618

As at 31 December 2015, paid-up share capital adjusted for inflation amounts to RUB 14,934,618 thousand (31 December 2014: RUB 13,111,618 thousand).

Profit is distributed based on accumulated earnings recorded in statutory financial statements. According to Russian law, as at 31 December 2015, the Bank's reserves and retained earnings amounted to RUB 876,190 thousand (31 December 2014: RUB 2,048,733 thousand) (unaudited).

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	Unrealized gains/(losses) on investment securities available for sale	Accumulated deficit	Total
At 1 January 2014	200,501	78,582	(1,467,592)	(1,188,509)
Amortization of revaluation reserve, net of tax	(4,293)	–	4,293	–
Net unrealized losses on investment securities available for sale	–	(134,361)	–	(134,361)
Realized losses on investment securities available for sale reclassified to the income statement	–	(192,243)	–	(192,243)
Tax effect of net losses on investment securities available for sale	–	65,322	–	65,322
Loss for the period	–	–	(1,454,526)	(1,454,526)
Amounts due to shareholders, net of income tax	–	–	704,022	704,022
Disposal of non-controlling interest in a subsidiary	–	–	25,080	25,080
Sale of interest in a subsidiary	–	–	(840,801)	(840,801)
At 31 December 2014	196,208	(182,700)	(3,029,524)	(3,016,016)
At 1 January 2015	196,208	(182,700)	(3,029,524)	(3,016,016)
Amortization of revaluation reserve, net of tax	(4,294)	–	4,294	–
Net unrealized gains on investment securities available for sale	–	4,927	–	4,927
Realized losses on investment securities available for sale reclassified to the income statement	–	750	–	750
Tax effect of net gains on investment securities available for sale	–	(1,135)	–	(1,135)
Loss for the period	–	–	(6,427,596)	(6,427,596)
Amounts due to shareholders	–	–	650,000	650,000
Payments to shareholders	–	–	(227,883)	(227,883)
At 31 December 2015	191,914	(178,158)	(9,030,709)	(9,016,953)

No dividends for 2015 and 2014 were declared.

25 Interest income and expense

	2015	2014
Interest income		
<i>Total interest income for financial assets at fair value through profit or loss</i>	<i>2,142,385</i>	<i>1,026,071</i>
Debt financial instruments at fair value through profit or loss	2,142,385	1,026,071
<i>Total interest income for financial assets not at fair value through profit or loss</i>	<i>17,742,776</i>	<i>13,200,280</i>
Loans to customers (not impaired)	13,032,235	9,930,641
Loans to customers (impaired)	3,024,058	2,515,414
Debt investments available for sale	976,345	429,212
Due from banks	327,285	85,898
Receivables under sale and repurchase agreements	182,908	65,996
Other	199,945	173,119
Total interest income	19,885,161	14,226,351
Interest expense		
<i>Total interest expense for financial liabilities measured at amortized cost</i>	<i>18,456,139</i>	<i>10,536,543</i>
Customer accounts	10,987,747	5,834,049
Term deposits of other banks and securities purchase and resale transactions	3,325,334	1,507,315
Debt securities issued	2,859,724	2,586,148
Subordinated borrowings	838,279	389,691
Eurobonds issued	430,457	203,523
Other	14,598	15,817
Total interest expense	18,456,139	10,536,543
Net interest income	1,429,022	3,689,808

26 Fee and commission income and expense

	2015	2014
Fee and commission income		
Settlement operations	881,282	820,116
Transactions with plastic cards	462,487	520,921
Cash transactions	181,697	239,242
Guarantees and letters of credit issued	172,380	264,284
Transactions with securities	39,446	39,277
Currency operations	28,242	18,766
Fiduciary transactions	10,129	11,115
Other	1,099	192
Total fee and commission income	1,776,762	1,913,913
Fee and commission expense		
Transactions with plastic cards	139,317	102,543
Transactions with securities	95,591	52,027
Settlement operations	52,808	50,938
Cash collection	32,338	42,254
Fiduciary transactions	31,005	38,920
Guarantees and letters of credit received	20,336	17,332
Cash transactions	2,037	6,073
Other	16,615	11,586
Total fee and commission expense	390,047	321,673
Net fee and commission income	1,386,715	1,592,240

27 Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation

	2015	2014
Losses less gains from foreign currency translation	(2,851)	(2,567,977)
Gains less losses from foreign currencies	731,889	1,252,973
(Losses)/gains less gains/(losses) from foreign exchange derivatives	(1,035,139)	802,184
Total losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(306,101)	(512,820)

28 Allowance for impairment

	2015	2014
Loans to customers (Note 12)	(6,529,898)	(3,530,152)
Other assets (Note 16)	(16,705)	118,330
Due from banks (Note 8)	(246,487)	–
Total allowances for impairment	(6,793,090)	(3,411,822)

29 Administrative and other operating expenses

	2015	2014
Staff costs	1,795,592	1,916,145
Rent	345,288	401,860
Deposit insurance	272,882	218,680
Depreciation of property and equipment (Note 15)	206,599	177,839
Telecommunication services and stationery	171,601	193,265
Repairs and maintenance	163,571	178,349
Taxes other than income tax	138,232	171,685
Software maintenance expenses	124,568	134,054
Software licenses	119,629	100,987
Professional services	85,323	91,659
Advertising and marketing services	45,270	74,969
Charity	45,004	34,344
Security	28,382	35,212
Other	65,687	92,616
Total administrative and other operating expenses	3,607,628	3,821,664

Included in staff costs are statutory social security and pension contributions of RUB 380,261 thousand (2014: RUB 408,644 thousand).

30 Income tax expense

Income tax expense comprises the following:

	2015	2014
Current tax expense	32,701	25,719
Less current tax expenses recorded within equity	–	(176,006)
Deferred tax expense – origination and reversal of temporary differences	338,305	144,982
Income tax expense	371,006	(5,305)

30 Income tax expense (continued)

Deferred tax charged to other comprehensive income is as follows:

	2015	2014
Net gains/(losses) from investment securities available for sale	1,135	(65,322)
Income tax recognized in other comprehensive income	1,135	(65,322)

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of certain companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

Russian legal entities must file individual corporate income tax declarations with the tax authorities. The standard income tax rate for companies (including banks) was 20% for 2015 and 2014. In 2015 and 2014, corporate income tax rate applicable to interest (coupon) income on state bonds and mortgage-backed bonds was 15%, while corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. In 2015 and 2014, dividends are subject to Russian income tax at a standard rate of 9%, which could be reduced to 0% subject to certain criteria.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2015	2014
(Loss) before tax	(6,054,148)	(1,461,742)
Statutory tax rate	20%	20%
Theoretical income tax (benefit) at statutory tax rate	(1,210,830)	(292,348)
Tax effect of items, which are not deductible for taxation purposes		
Permanent differences:		
- Tax-exempt income	(2,633)	(28,251)
- Non-deductible expenses	31,185	37,066
- Income on government securities taxed at different rates	(3,300)	(6,692)
Gain from sale of a subsidiary	-	(311,054)
Movement in unrecognized net deferred tax assets	1,495,896	633,890
Other	60,688	(37,916)
Income tax expense (benefit)	371,006	(5,305)

Differences between IFRS and the Russian taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for the purposes of these consolidated financial statements and income tax purposes as at 31 December 2015 and 2014.

30 Income tax expense (continued)

Movements in temporary differences for the years ended 31 December 2014 and 2015 are as follows:

	1 January 2014	Recognized in profit or loss	Recognized in other comprehen- sive income	Disposal of a subsidiary	1 January 2015	Recognized in profit or loss	Recognized in other comprehen- sive income	Business combina- tions	31 December 2015
Deferred tax assets									
Investments in securities	77,822	(77,759)	-	-	63	(63)	-	-	-
Provisions	907,153	(174,619)	-	(322,911)	409,623	822,224	-	-	1,231,847
Loans and advances to customers	38,017	(38,017)	-	-	-	-	-	-	-
Due from banks	-	-	-	-	-	101,479	-	-	101,479
Tax loss carry-forwards	-	868,248	-	(16,185)	852,063	285,961	-	-	1,138,024
Other	101,468	(101,468)	-	-	-	-	-	-	-
Gross deferred tax asset	1,124,460	476,385	-	(339,096)	1,261,749	1,209,601	-	-	2,471,350
Unrecognized deferred tax assets	(680,660)	(633,890)	-	339,096	(975,454)	(1,495,896)	-	-	(2,471,350)
Deferred tax asset	443,800	(157,505)	-	-	286,295	(286,295)	-	-	-
Deferred tax liabilities									
Investments in securities	(757,057)	(8,215)	65,322	-	(699,950)	(52,016)	(1,135)	(82,523)	(835,624)
Property and equipment	(114,501)	-	-	-	(114,501)	6	-	-	(114,495)
Other borrowings	(20,738)	20,738	-	-	-	-	-	-	-
Total deferred tax liability	(892,296)	12,523	65,322	-	(814,451)	(52,010)	(1,135)	(82,523)	(950,119)
Net deferred tax asset/ deferred tax liability	(448,496)	(144,982)	65,322	-	(528,156)	(338,305)	(1,135)	(82,523)	(950,119)

A deferred tax asset is the amount of income tax that may be offset against future income taxes and is recorded in the consolidated statement of financial position. A deferred tax asset is recorded only to the extent that the realization of the related tax benefit is probable.

As at 31 December 2015, the Group did not recognize deferred tax assets in the amount of RUB 2,471,350 thousand (31 December 2014: RUB 975,454 thousand) as management does not believe that the Group will be able to recover the related benefits.

31 Segment analysis

The Group is organized into three main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. The operations in each of the reportable segments are described below:

- ▶ Corporate banking – current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency operations, and other transactions with corporate customers.
- ▶ Retail banking – banking services to individuals, including current accounts, deposits, custody, credit and debit cards, consumer loans and mortgages.
- ▶ Investment banking – trading in financial instruments, including derivatives, providing loans and attracting deposits in the interbank market. The Group does not allocate equity between segments.

The Management Board evaluates the profitability of the operating segments based on financial information prepared using the accounting data maintained in accordance with Russian Accounting Principles.

The accounting policies relating to operating segments are based on the Russian Accounting Principles, therefore they differ significantly from the accounting policies described in these consolidated financial statements. Information regarding the results of each reporting segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry.

The Group does not allocate the net book value of property and equipment between the segments to determine the total value of segment assets. These assets are included in "Unallocated" category for segment reporting purposes.

31 Segment analysis (continued)

Segment information on the main reportable operating segments of the Group in 2015 is presented in the table below:

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
2015					
Total revenue comprises:					
- Interest income	10,707,064	3,299,248	3,009,903	–	17,016,215
- Fee and commission income	1,218,195	876,228	7,937	(158)	2,102,202
- Other operating income	739,388	429,752	477,968	14,980	1,662,088
Total external revenues	12,664,647	4,605,228	3,495,808	14,822	20,780,505
Intersegment revenues	3,748,801	8,954,289	24,057,744	–	36,760,834
Segment results	(665,758)	(1,080,867)	1,377,955	(59,055)	(427,725)
31 December 2015					
Segment assets	91,222,039	18,925,106	62,979,098	14,329,103	187,455,346
Segment liabilities	43,773,618	74,351,187	49,730,622	3,758,764	171,614,191

Segment information for the main reportable operating segments for the year ended 31 December 2014 is set out below.

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
2014					
Total revenue comprises:					
- Interest income	7,301,303	3,909,655	3,399,173	–	14,610,131
- Fee and commission income	1,172,493	1,054,796	(48,072)	–	2,179,217
- Other operating income	1,114,822	114,278	635,895	16,496	1,881,491
Total external revenues	9,588,618	5,078,729	3,986,996	16,496	18,670,839
Intersegment revenues	2,056,251	5,694,386	4,316,777	677	12,068,091
Segment results	1,256,271	(285,817)	(480,596)	(292,398)	197,460
31 December 2014					
Segment assets	66,231,249	21,421,991	57,110,146	17,391,255	162,154,641
Segment liabilities	36,336,195	57,891,800	50,396,689	2,514,724	147,139,408

The difference in the amount of interest income recorded in management accounts and that for IFRS purposes is due to the fact that interest income for management accounts includes fiduciary fees and commissions.

Administrative and other operating expenses are allocated between segments for the purposes of segment analysis based on cost components, the principal one being the headcount.

Intersegment revenues were calculated for management accounting purposes in accordance with transfer pricing principles applied by the Bank.

31 Segment analysis (continued)

A reconciliation of profit before tax per management accounts to profit before tax as presented in these IFRS consolidated financial statements is provided below:

	2015	2014
Profit before tax per management accounts	(427,725)	197,460
Adjustments in allowances for impairment	(2,501,172)	1,377,508
Consolidation adjustments	2,932,106	260,721
Adjustments in assets and liabilities at fair value	(5,733,162)	(974,364)
Adjustments in assets and liabilities at amortized cost	285,298	(1,396,295)
Reclassification of amounts due to a shareholder	(650,000)	(880,028)
Other adjustments	40,507	(46,744)
Loss before tax per IFRS financial information	(6,054,148)	(1,461,742)

Financial information in the segment analysis (or management accounting) differs in many respects from the information prepared in accordance with IFRS. The major differences are:

- ▶ Allowance adjustments arise from differences in valuation techniques applied when calculating allowances for loan impairment under IFRS and RAP for management accounting purposes
- ▶ A difference in the revaluation of securities recorded at fair value through profit or loss arises from differences between valuation techniques for securities under IFRS and RAP for management accounting purposes
- ▶ Adjustments to accumulated income/expenses arise mainly from the fact that the Group uses nominal interest rates when preparing management accounts and effective interest rates when preparing IFRS financial statements
- ▶ Consolidation of subsidiaries
- ▶ Allowance for impairment of other non-financial assets
- ▶ Revaluation of investment property.

A reconciliation of total segmental assets/liabilities per management accounts to total assets/liabilities as presented in these IFRS consolidated financial statements is provided below:

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounts	187,455,346	171,614,191	162,154,641	147,139,408
Adjustments in allowances for impairment	(6,580,151)	–	(4,078,979)	–
Consolidation adjustments	10,504,268	4,597,821	5,486,601	2,512,260
Adjustments in assets and liabilities at fair value	(6,734,920)	6,485	(937,392)	70,851
Adjustments in assets and liabilities at amortized cost	(1,128,656)	(17,659)	(1,396,295)	–
Other adjustments	(2,013,540)	(783,208)	(760,375)	485,470
Total assets/liabilities per IFRS financial statements	181,502,347	175,417,630	160,468,201	150,207,989

Information about major customers. Substantially all revenues from external customers are generated from transactions within the Republic of Tatarstan with counterparties located in the Republic of Tatarstan. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of total revenues. Most of non-current assets are located in the Russian Federation.

32 Financial risk management

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity, interest rate, currency and price risks) and functional risks (operational, legal and reputational risks). The primary objective of financial risk management is establishing risk limits and ensuring compliance therewith. Functional risk management must ensure proper compliance with internal regulations and procedures to minimize operational and regulatory risks.

Risk management functions are split between bodies responsible for establishing risk management policies and procedures, including setting limits, and those who are responsible for implementing these policies and procedures, including monitoring risks and limits on a continuous basis.

The Board of Directors, the Audit and Risk Committee of the Board of Directors and the Management Board set the risk management policies of the Bank.

- ▶ *The Board of Directors* is authorized to approve the principal risk management policies and develop a strategy for risk management and control. The Board of Directors also approves certain significant transactions. The Board of Directors approves the risk management policy, risk limits and frequency of limits review, approves risk mitigation policies for all transactions, specifies types of banking and other transactions that require preliminary approval, and controls the executive risk management bodies. The Board of Directors is ultimately responsible to the Bank's owners for ensuring a complete and adequate understanding of risks and potential losses as well as for ensuring that the Management Board takes all necessary steps to maintain effective functioning of the risk management and control system.
- ▶ *The Audit and Risk Committee of the Board of Directors* is a special permanent body created by the Board of Directors to analyze the most critical issues within its competence. The objectives of creating the Committee are to increase the effectiveness of the Bank's internal control, audit and risk management systems and to ensure that the Board of Directors performs its management and supervisory functions related to the operation of the systems. The Committee acts in the interests of the Bank, its shareholders and investors and ensures the involvement of the members of the Board of Directors in the control over the financial and business operations of the Bank, compliance with legislation and the requirements of supervisory and regulatory bodies, the reliability of financial statements, and the transparency and completeness of financial information.
- ▶ *The Management Board* is responsible for implementing the risk management policy established and approved by the Board of Directors. The Management Board approves internal guidance for the Bank's functions involved in risk management, establishes key risk management principles, sets the limits for transactions in the financial (money) markets as well as the procedures for their approval within its powers. The Management Board approves the credit policy, appoints members of the Bank's Credit Committees and approves decisions within its powers.

The Asset and Liability Management Committee, Credit Committees, Risk Committee, Treasury, Internal Audit Function, Internal Control Function, Securities Market Control Division, and the Risk Management Department implement the Bank's risk management policy.

- ▶ *The Asset and Liability Management Committee* has the power and authority to determine and implement the Bank's current and long-term policy with regard to managing the Bank's assets and liabilities, financial risks and liquidity. The Committee is responsible for managing liquidity, the Bank's interest rate policy and financial risks, and for coordinating the activities of different units pertaining to managing the balance sheet structure and financial risks. Managerial decisions adopted by the Committee on adjusting the structure of the Bank's assets and liabilities are within the effective limits established by the Management Board (limits for counterparties, the Bank's business units, financial instruments, industries and regions), and are in line with the lending decisions approved by the Credit Committees. Should liquidity be insufficient, the Committee may decide to reduce the value or suspend any transaction, and postpone lending operations approved by the Credit Committees.
- ▶ *The Credit Committees* take decisions, within their powers, on the transactions with the counterparties in order to mitigate the risk of the counterparties' failure to perform their obligations to the Bank (credit risk) as well as to maximize economic efficiency of these transactions.
- ▶ *The Risk Committee* is a collective body established for the purpose of assisting the Bank's Management Board to manage risks, enhance governance, and promptly react to critical risks. The Committee's main task is to decide on organizing and maintaining an effective risk management framework.

32 Financial risk management (continued)

- ▶ *The Treasury* is primarily responsible for managing short-term and current liquidity within the established requirements and limits. It is also responsible for monitoring compliance with the approved limits, it participates in the development of the liquidity risk mitigation policy and procedures and also the standards and procedures of banking transactions.
- ▶ *The Internal Audit Function* is responsible for compliance with all applicable legislation and internal rules and decisions, including the Bank's credit policy. The Internal Audit Function participates in developing risk mitigation procedures, as well as the standards and procedures of banking transactions. The Internal Audit Function reports directly to the Board of Directors.
- ▶ *The Internal Control Function* was established to increase the effectiveness of the internal control system and management of regulatory risks (legal, reputational, or risk of inflicting significant financial losses). The function is responsible for compliance of the internal documents to the legal requirements. It develops procedures designed to reduce regulatory risks and performs preliminary and ongoing control over transactions.
- ▶ *The Securities Market Control Division* continuously controls compliance with the risk management policy by staff and units and participates in financial risk management with respect to the operations in the securities market.
- ▶ *The Risk Management Department* reviews the financial position of the counterparties, evaluates the data and calculates the limits for major risks, prepares proposals on risk mitigation and (in accordance with the approved limits) proposes on limits for certain transactions and/or counterparties.

The Board of Directors has approved the Risk Assessment and Management Policy that establishes the principal policies of banking risk management and assessment.

There were no significant changes in the objectives, policies and processes for managing risk and in the methods used to measure risk.

As at 31 December 2015, at the level of the banking group, where the Bank is the parent credit institution, the following documents were developed: "Disclosure requirements to risks, risk assessment procedures, risk and capital management" (approved by the Decision of the Bank's Management Board in accordance with CBR Instructive Regulation No. 3080-U *On forms, procedures and timeframe for disclosing information on risks, risk assessment procedures, risk and capital management by parent credit institutions of banking groups* dated 25 October 2013); "Methodology of JSC "AICB "Tatfondbank" for equity risk assessment under IFRS" for the purposes of equity risk assessment in IFRS consolidated financial statements; and the total limits of investments by PJSC "Tatfondbank" and subsidiary IC "TFB-Finance" LLC into securities and derivative financial instruments were approved.

As at 31 December 2015, there are no common internal methodologies for identification and management of significant risks at the level of the banking group, where the Bank is the parent credit institution. PJSC "Tatfondbank" and PJSC NCB "Radiotechbank" have developed and apply separate methodologies for significant risk assessment, and all banks within the Group use its own systems of significant risk reporting. Therefore, in 2015, risk management departments and internal audit functions of each Group bank used its own methodologies to control and assess significant risk management.

As at 31 December 2015, there are no internal documents governing control over compliance by the banking group, where the Bank is the parent credit institution, with established risk limits and equity (capital) adequacy requirements developed at the level of the banking group, where the Bank is the parent credit institution. The Bank is currently engaged into the project "Developing and implementing internal procedures to assess equity (capital) adequacy in accordance with CBR Instructive Regulation No. 3624-U *Concerning requirements to risk and capital management in credit institutions and banking groups* dated 15 April 2015," approved by the Order of the Chairman of the Bank's Management Board. The project involves development of unified methodologies to identify risks significant for the banking group, to manage such risks and to perform stress testing; a unified system of significant risks reporting and internal documents governing control over compliance by the banking group, where the Bank is the parent credit institution, with established risk limits and equity (capital) adequacy requirements.

32 Financial risk management (continued)

Credit risk. Credit risk is the risk of financial loss resulting from default by a borrower or counterparty on their obligation to the Group.

The following management bodies and business units of the Bank are involved in managing credit risk: Management Board, Asset and Liability Management Committee, Credit Committees, Risk Management Department, Internal Audit Function, Collateral and Asset Department and Security Department.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the contingent liability.

In accordance with the Limit Policy, the Group controls its credit risk by complying with the established limits in relation to one borrower, or group of related borrowers, and by setting limits for geographical and industry segments. Limits on the level of credit risk by product and industry are approved regularly by management. Such risks are monitored on a regular basis, and limits are reviewed at least annually.

The Group has set up several credit committees which are standing bodies of the Bank responsible for deciding on corporate and retail lending.

Credit committees include:

- ▶ Credit Committee for lending to legal entities and individual entrepreneurs
- ▶ Credit Committee for lending to individuals
- ▶ Small Credit Committee for lending to legal entities and individual entrepreneurs
- ▶ Small Credit Committee for lending to individuals.

Loan applications from the client relationship managers are passed on to the relevant Credit Committee for the credit limit approval. Exposure to credit risk is also managed by obtaining collateral and guarantees from companies and individuals.

To monitor credit risk, the credit department employees prepare regular reports based on the structured analysis of the customer's business and financial performance. All information on significant risks in respect of customers with deteriorating creditworthiness is communicated to and reviewed by the Credit Committees and the Management Board.

Limitations of Credit Committee powers are set by the Management Board according to internal regulations.

Limitations of authority of collective bodies are determined based on the reasonableness, materiality and required decision-making promptness.

The Collateral and Asset Department regularly measures the fair value of collateral used for making adjustments to the allowance for impairment (at least on a quarterly basis). The collateral is revalued in case of deterioration of the borrower's financial position, and in case of identification (in the course of checking the availability and state of collateral) of facts affecting the liquidity and market value of collateral.

The Group uses formalized internal credit ratings to monitor credit risk.

The credit rating of a corporate counterparty includes an assessment of its financial position (profit margin, liquidity, coverage and turnover ratios, etc.) using a scoring system, and its business risk tolerance (quality of management, ownership structure, industry competition, dependence on vendors and customers, etc.). Each counterparty is assigned a credit rating depending on its total score based on which the Credit Committee, the Asset and Liability Management Committee or the Management Board (depending on the loan amount under consideration) approve or reject the transaction and its terms.

For the purpose of determining risks associated with the SME portfolio, the Group analyzes the counterparty's financial position (profit margins, debt burden, extent to which loan repayments are covered by business revenues, etc.) and its business risk tolerance (track record, ownership structure, credit history quality, etc.). The credit rating for an individual counterparty is assigned based on its total score.

The credit rating for a credit institution is determined on the basis of assessing its solvency, asset quality, operations efficiency and business activity. Limits for counterparty banks depend on their current liquidity and equity position. Final decisions on the amount of investments and interbank loans are taken on a collegial basis by the Asset and Liability Management Committee or the Management Board.

32 Financial risk management (continued)

The credit rating of an insurance company is determined by assessing its financial position, including financial ratios and business risk tolerance (degree of regional and industry risk diversification, specialization of the company, business history, management quality, ownership structure, etc.).

For the purposes of credit risk assessment, loans to individuals are classified into collateralized loans (mortgage and car loans) and other consumer loans.

Retail loan applications are reviewed by specialists of the Retail Banking Department using scoring models and procedures of loan application data verification developed in cooperation with the Risk Management Department.

The analysis and evaluation of counterparties' financial position are conducted by those departments that are involved in lending as well as by the Risk Management Department.

The Group's credit departments review outstanding loans by maturity and follow up on past due balances. Management is provided with the ageing and other information on credit risk as disclosed in Note 12.

The credit risk for credit related contingencies is defined as the possibility of sustaining a loss as a result of the other party to a financial instrument failing to perform in accordance with the terms of the contract. The Group applies the same credit policies to contingencies as it does for financial instruments recognized in the consolidated statement of financial position through approving credit risk limits and monitoring procedures.

The table below shows the analysis of credit quality by class of corporate loans and other financial assets before the allowance for impairment as at 31 December 2015:

	Neither overdue nor impaired			Impaired	Total
	Group 1	Group 2	Group 3		
Due from banks	1,386,992	–	–	246,487	1,633,479
Loans to corporate entities	25,227,965	38,303,540	17,886,120	33,292,280	114,709,905
Corporate loans	19,901,832	33,733,671	17,193,537	31,458,856	102,287,896
Loans to SME	2,436,737	3,344,150	692,583	1,833,424	8,306,894
Purchase and resale agreements ("reverse repo")	2,889,396	1,225,719	–	–	4,115,115
Debt securities	18,030,146	736,157	7,459,189	1,093,218	27,318,710
Financial instruments at fair value through profit or loss	15,012,273	736,157	3,410,662	–	19,159,092
Investments available for sale	3,017,873	–	4,048,527	1,070,621	8,137,021
Investments held to maturity	–	–	–	22,597	22,597
Securities lent	656,365	–	–	–	656,365
Total	45,301,468	39,039,697	25,345,309	34,631,985	144,318,459

Credit quality by financial instruments that are neither overdue nor impaired is presented according to the following categories:

- ▶ *Loans to corporate entities:*
 - ▶ Group 1 – loans to borrowers whose financial position is rated as "good"
 - ▶ Group 2 – loans to borrowers whose financial position is rated as "average"
 - ▶ Group 3 – loans to borrowers whose financial position is rated as "below average", but the loans included in this category are not individually impaired.
- ▶ *Due from banks:*
 - ▶ Group 1 – financial instruments with the provision ratio of 0%
 - ▶ Group 2 – financial instruments with the provision ratio from 0% to 2%
 - ▶ Group 3 – financial instruments with the provision ratio of more than 2%.

32 Financial risk management (continued)

- ▶ *Financial instruments at fair value through profit or loss and financial instruments available for sale:*
 - ▶ Group 1 – financial instruments, issuers of which have international ratings of not less than "B3" ("B-")
 - ▶ Group 2 – financial instruments, issuers of which have international ratings of not less than "CCC" ("Caa") and which are traded in the over-the-counter market
 - ▶ Group 3 – non-impaired financial instruments, issuers of which have no international ratings, as measured according to the model.

The concept of impaired financial assets is provided in Note 4.

The table below shows the analysis of credit quality by class of loans to individuals before the allowance for impairment as at 31 December 2015.

	Neither impaired nor overdue	Overdue but not impaired	Impaired loans	Total
Loans to individuals	20,570,115	1,424,054	2,872,995	24,867,164
Consumer loans	12,127,459	1,044,953	2,407,228	15,579,640
Mortgage loans	6,536,454	263,799	261,754	7,062,007
Car loans	1,906,202	115,302	204,013	2,225,517
Total	20,570,115	1,424,054	2,872,995	24,867,164

Impaired loans to individuals are loans overdue 181 days or more.

The table below shows the analysis of credit quality by class of corporate loans and other financial assets before the allowance for impairment as at 31 December 2014:

	Neither overdue nor impaired			Impaired	Total
	Group 1	Group 2	Group 3		
Due from banks	1,189,970	–	–	–	1,189,970
Loans to corporate entities	16,151,125	34,727,701	13,624,323	21,292,501	85,795,650
Corporate loans	13,534,883	29,605,881	12,822,985	19,805,390	75,769,139
Loans to SME	2,412,936	3,721,400	801,338	1,487,111	8,422,785
Purchase and resale agreements ("reverse repo")	203,306	1,400,420	–	–	1,603,726
Debt securities	11,625,337	5,891,003	9,686,381	23,018	27,225,739
Financial instruments at fair value through profit or loss	11,625,337	5,891,003	6,130,805	–	23,647,145
Investments available for sale	–	–	3,555,576	–	3,555,576
Investments held to maturity	–	–	–	23,018	23,018
Securities lent	1,477,238	–	–	–	1,477,238
Total	30,443,670	40,618,704	23,310,704	21,315,519	115,688,597

The table below shows the analysis of credit quality by class of loans to individuals before the allowance for impairment as at 31 December 2014.

	Neither impaired nor overdue	Overdue but not impaired	Impaired loans	Total
Loans to individuals				
Consumer loans	13,543,532	1,154,849	2,474,079	17,172,460
Mortgage loans	5,661,584	179,342	139,475	5,980,401
Car loans	2,332,988	138,342	201,864	2,673,194
Total	21,538,104	1,472,533	2,815,418	25,826,055

32 Financial risk management (continued)

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk occurs where the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains necessary liquidity levels with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Liquidity Policy is approved by the Board of Directors.

Operational information on liquidity risk (gap analysis) is provided to management at least once a month. For management accounting purposes, the Risk Management Department determines the liquidity risk as at the first day of every month jointly with Liquidity Management and Transfer Pricing Division. The objective is to determine a net liquidity gap and a negative uncovered liquidity gap and compare the gaps with available funding sources.

As a part of its liquidity evaluation and management process, the Group estimates maturities of borrowings, performs stress testing and evaluates its ability to refinance debt from customer and financial markets.

The liquidity position is considered to be at the normal level if the negative liquidity gap is lower than, or comparable to, the possible amount of funding from the financial markets (acceptable negative liquidity gap). The liquidity position is critical if a negative liquidity gap exceeds the maximum possible funding from financial markets.

The Treasury monitors limits opened by counterparty banks in order to evaluate possibilities for attracting additional resources from the financial markets.

The liquidity management comprises maintaining the appropriate level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. Control over the liquidity position and the implementation of liquidity management decisions is the responsibility of the Asset and Liability Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. These ratios are:

- ▶ Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- ▶ Current liquidity ratio (N3), which is calculated as the ratio 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 equity and liabilities maturing after one year.

The Treasury receives information about financial assets and liabilities and it is responsible for monitoring of the daily liquidity position, including the amount of deposits with banks and other interbank facilities. The Department for Active Operations in the Securities Market provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

32 Financial risk management (continued)

The following tables show financial liabilities by remaining contractual maturities as at 31 December 2015 and 2014. The amounts disclosed in the tables are the contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the consolidated statement of financial position.

When the amount payable is not fixed, it is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

All outstanding liabilities under financial guarantees relate to the earliest period in which guarantees could be called.

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2015:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	15,919,378	389,224	–	–	16,308,602
Due to banks	8,962,157	2,892,917	176,572	5,518,334	17,549,980
Customer accounts	26,658,281	52,403,003	34,043,336	3,204,439	116,309,059
Debt securities issued	441,251	5,565,201	8,212,380	13,120,285	27,339,117
Eurobonds issued	–	56,120	56,120	1,076,477	1,188,717
Other borrowings	3,304	–	945	96,475	100,724
Other financial liabilities	304,535	65,593	7,664	1,548	379,340
Net settled derivatives	6,485	–	–	–	6,485
Subordinated borrowings and Eurobonds	–	240,198	289,185	13,849,284	14,378,667
Obligations to repurchase interests in a subsidiary	–	114,153	–	–	114,153
Total financial liabilities	52,295,391	61,726,409	42,786,202	36,866,842	193,674,844
Total commitments and contingencies	16,434,359	107,006	491,919	188,651	17,221,935

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	7,802,839	5,445,438	–	–	13,248,277
Due to banks	7,779,448	1,375,902	262,890	4,438,887	13,857,127
Customer accounts	20,294,026	40,154,860	31,502,616	2,784,053	94,735,555
Debt securities issued	336,971	11,423,060	9,840,947	58,283	21,659,261
Eurobonds issued	–	216,595	4,154,683	–	4,371,278
Other borrowings	11,566	34,097	302,223	1,141,315	1,489,201
Other financial liabilities	307,920	8,391	147,108	7,476	470,895
Net settled derivatives	14,515	–	–	–	14,515
Subordinated borrowings and Eurobonds	–	129,179	131,321	7,622,860	7,883,360
Obligations to repurchase interests in a subsidiary	–	–	–	114,153	114,153
Total financial liabilities	36,547,285	58,787,522	46,341,788	16,167,027	157,843,622
Total commitments and contingencies	16,358,963	221,795	100,793	326,139	17,007,690

32 Financial risk management (continued)

As at 31 December 2015, commitments and contingencies comprise credit facilities in the amount of RUB 5,674,975 thousand (31 December 2014: RUB 6,643,796 thousand) which were classified as "On demand and less than 1 month", as the customer is entitled to request a tranche from the Bank at any time. The Bank may refuse to extend a loan in case the borrower's financial position deteriorates.

In accordance with the Russian legislation, individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, with a loss of accrued interest income. These deposits are presented by contractual maturity dates. As at 31 December 2015, term deposits of individuals maturing in more than one month amount to RUB 63,638,228 thousand (31 December 2014: RUB 50,896,442 thousand).

Management believes that in spite of a substantial portion of customer accounts being on demand (current/settlement accounts), diversification of these deposits by number and type, and the past experience of the Group, indicate that these deposits provide a long-term and stable source of funding. According to the Group's estimates, as at 31 December 2015 and 2014, withdrawals from "On demand and less than 1 year" customer accounts will occur in the following periods:

	31 December 2015	31 December 2014
On demand and less than 1 year	18,821,644	12,746,022
Over 1 year	7,836,637	7,548,004

In accordance with the terms of the issue, the holders of the Group's debt securities have right to present them for redemption on certain dates before final maturity. Undiscounted cash flows for these financial instruments are therefore presented based on the earliest offer dates.

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitments because the Group does not generally expect third parties to draw funds under the commitments. The total outstanding contractual commitments to extend credit do not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded. Information on the amounts of commitments and contingencies by type is provided in Note 34.

The following tables show assets and liabilities by contractual maturity dates as at 31 December 2015 and 31 December 2014. Due to the fact that as at 31 December 2015 and 31 December 2014 substantially all the financial instruments are fixed rated contracts, contractual maturity dates also represent the interest rate repricing dates.

In the tables below financial assets and liabilities are presented on a discounted basis according to their contractual maturities, including deposits of individuals. Management expects that the cash flows from certain financial assets and liabilities may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows dates from these financial assets and liabilities may differ from contractual dates. The following financial assets and liabilities are presented based on expected cash flows.

Financial instruments at fair value through profit or loss comprise:

- ▶ Debt securities included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 15,056,663 thousand (31 December 2014: RUB 16,971,520 thousand)
- ▶ There are no equity securities (shares) included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB (31 December 2014: RUB 1,881 thousand).

Investments available for sale comprise:

- ▶ Debt securities included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 3,017,873 thousand (31 December 2014: RUB 51,492 thousand)
- ▶ Equity securities (shares) included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 68,066 thousand (31 December 2014: none).

32 Financial risk management (continued)

The table below summarizes the analysis of the Group's liquidity position as at 31 December 2015:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	13,579,727	–	–	–	–	13,579,727
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	891,824	891,824
Due from banks	2,354	927,941	–	456,697	–	1,386,992
Financial instruments at fair value through profit or loss	19,715,034	–	–	–	–	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	8,618,303	–	–	–	–	8,618,303
Securities lent	–	656,365	–	–	–	656,365
Loans to customers	7,605,540	28,013,518	45,671,921	38,330,079	1,660,650	121,281,708
Investments available for sale	6,705,716	–	–	–	–	6,705,716
Investments available for sale pledged as collateral under sale and repurchase agreements	3,012,640	–	–	–	–	3,012,640
Other financial assets	414,896	1,793,422	87,057	86,265	4,815	2,386,455
Total financial assets	59,654,210	31,391,246	45,758,978	38,873,041	2,557,289	178,234,764
Financial liabilities						
Due to the Central Bank of the Russian Federation	15,879,091	385,855	–	–	–	16,264,946
Due to banks	8,884,624	2,734,035	23,365	4,641,486	–	16,283,510
Customer accounts	26,583,591	50,659,368	31,885,749	2,847,177	–	111,975,885
Debt securities issued	439,785	6,447,536	8,196,015	931,597	–	16,014,933
Eurobonds issued	–	–	–	1,027,256	–	1,027,256
Other borrowings	3,304	–	900	94,903	–	99,107
Other financial liabilities	304,535	65,593	7,664	1,548	–	379,340
Subordinated borrowings and Eurobonds	–	–	–	10,309,218	–	10,309,218
Total financial liabilities	52,094,930	60,292,387	40,113,693	19,853,185	–	172,354,195
Net gap	7,559,280	(28,901,141)	5,645,285	19,019,856	2,557,289	5,880,569
Cumulative gap at 31 December 2015	7,559,280	(21,341,861)	(15,696,576)	3,323,280	5,880,569	–

32 Financial risk management (continued)

The table below summarizes the analysis of the Group's liquidity position as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	16,412,809	–	–	–	–	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	1,067,447	1,067,447
Due from banks	132,069	706,791	–	351,110	–	1,189,970
Financial instruments at fair value through profit or loss	24,370,555	–	–	–	11,670	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	7,931,456	–	–	–	–	7,931,456
Securities lent	–	1,477,238	–	–	–	1,477,238
Loans to customers	5,272,484	16,458,242	28,613,629	44,619,250	1,760,212	96,723,817
Investments available for sale	4,912,886	–	–	–	–	4,912,886
Other financial assets	479,412	1,748,561	60,045	123,418	54,764	2,466,200
Total financial assets	59,511,671	20,390,832	28,673,674	45,093,778	2,894,093	156,564,048
Financial liabilities						
Due to the Central Bank of the Russian Federation	7,670,614	5,333,996	–	–	–	13,004,610
Due to banks	7,654,078	1,154,352	823	3,129,503	–	11,938,756
Customer accounts	20,231,813	38,419,889	29,137,438	2,371,186	–	90,160,326
Debt securities issued	335,498	5,452,724	2,425,934	12,185,903	–	20,400,059
Eurobonds issued	–	–	–	3,820,534	–	3,820,534
Other borrowings	4,520	–	260,861	930,301	–	1,195,682
Other financial liabilities	307,920	8,391	147,108	1,878	5,598	470,895
Subordinated borrowings and Eurobonds	–	–	–	6,600,369	–	6,600,369
Total financial liabilities	36,204,443	50,369,352	31,972,164	29,039,674	5,598	147,591,231
Net gap	23,307,228	(29,978,520)	(3,298,490)	16,054,104	2,888,495	8,972,817
Cumulative gap at 31 December 2014	23,307,228	(6,671,292)	(9,969,782)	6,084,322	8,972,817	–

The liquidity gap within the period of 12 months is most influenced by:

- ▶ Deposits of individuals – 46% (31 December 2014: 45%)
- ▶ Deposits of corporate entities – 18% (31 December 2014: 19%)
- ▶ Interbank borrowings – 18% (31 December 2014: 18%).

Deposits of individuals are presented by contractual maturity dates. Management believes that regardless of the fact that a substantial portion of deposits of individuals is classified as "From 1 to 6 months" and "From 6 to 12 months", most of them will be extended. Diversification of these deposits by number and type, and the past experience (accumulated statistics) of the Group, indicate that these amounts provide a long-term and stable source of financing.

The Bank regularly assesses minimum cash balances on corporate entities' settlement accounts and individuals' current accounts and plastic cards and treats them as a stable source of financing. As at 31 December 2015, the minimum amount of security deposits amounts to RUB 8.4 billion (31 December 2014: RUB 8.4 billion).

32 Financial risk management (continued)

Debt securities issued are considered by the period until the next offer. The Group has debt securities issued in the amount of RUB 15.1 billion (31 December 2014: RUB 24 billion) maturing within 12 months after the reporting date. In assessing the Group's liabilities, management expects that more than RUB 3 billion (31 December 2014: RUB 6 billion) may not be redeemed under the offers. The above statement is based on the statistics of bond issue offers, starting from 2011, adjusted for current market conditions. On average, about 54% of the issue is offered (variance of 7%-92%), however, around 90% of repurchased bonds return to the market within three months after the offer (variance of 21%-100%). All of the Group's bonds denominated in rubles are included in the Lombard List of the Central Bank of the Russian Federation and the first-level quotation list of Moscow Interbank Currency Exchange, therefore, they are in high demand from investors.

Management believes that the Group will be able to refinance its debt. During 2015, the Group placed two new bond issues in the amount of RUB 4 billion, additional issue under one existing bond issues totaling RUB 1 billion, one new mortgage-backed bond issue of RUB 1.4 billion, held offers on five bond issues totaling RUB 8.3 billion (47% bonds returned to the market), one Eurobond issue in the amount of RUB 3.4 billion and repaid three bond issues totaling RUB 7 billion.

Deposits of corporate entities maturing within 12 months after the reporting date amount to RUB 26.9 billion (31 December 2014: RUB 22.5 billion). Taking into account that the amount of the deposits increased during 2015, management does not expect significant cash outflows from deposit accounts.

Management may refinance existing liabilities by using open credit facilities with other banks, raising funds collateralized by securities portfolio and borrowing from the Central Bank of the Russian Federation:

- ▶ Total credit lines opened with Russian counterparty banks are estimated at RUB 21.3 billion (31 December 2014: RUB 14.2 billion)
- ▶ Securities included in the Lombard List of the Central Bank of the Russian Federation are estimated at RUB 18.1 billion (31 December 2014: RUB 17 billion), including securities pledged as collateral under sale and repurchase agreements in the amount of RUB 11.6 billion (31 December 2014: RUB 7.85 billion).

Apart from providing a liquidity cushion, the Group takes the following steps to secure funding, maintain current liquidity level and ensure timely fulfillment of its liabilities:

- ▶ The loan portfolio eligible to be used as collateral for borrowings from the Central Bank of the Russian Federation is increased
- ▶ Six bond issues in the amount of RUB 15 billion have been registered. These funds may be used as intended, if necessary.

In addition, management of the Group is sure, based on discussion with regional government representatives and written confirmations received from them in 2011 and 2016, that the Bank and the Group will get support, if needed, from the Government of the Republic of Tatarstan and other authorities to improve liquidity and ensure financial sustainability of the Group. The Government of the Republic of Tatarstan made an injection of RUB 2 billion in the Bank's share capital in 2008 and granted a subordinated loan of RUB 2.1 billion in 2010. Management expects that the Government of the Republic of Tatarstan will continue to support the Bank and the Group. In July-August 2015, the Bank raised subordinated borrowings totaling RUB 2.4 billion from a 100% state-owned company.

In December 2015, the Bank's share capital was increased by RUB 1.8 billion due to an additional issue of shares registered by the Central Bank of the Russian Federation on 31 March 2015 (Note 24).

In 2015, the Bank was included in the list of regional banks approved by the Government of the Russian Federation to implement measures to increase capitalization. In January 2016, the Bank received RUB 1.4 billion under the program.

In the first half of 2016, the Bank's shareholders plan to increase capital by contributing RUB 4 billion on a gratuitous basis and through a subordinated borrowing of RUB 4 billion.

Thus, management of the Group concludes that the Group will be able to maintain a sufficient liquidity level during the next 12 months.

32 Financial risk management (continued)

Market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise interest rate risk, currency risk and other price risks. Market risk arises from open positions for interest-bearing, currency and equity financial instruments exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but interest margin may decrease or losses may be incurred in the event of unexpected movements in interest rates.

For management accounting purposes, the Risk Management Department determines the interest rate risk at the end of each month.

The interest rate risk management functions of the Management Board include:

- ▶ Approval of interest rates for various types of transactions
- ▶ Management decisions on asset and liability portfolios in relation to their maturity or interest rate structure.

The Risk Management Department calculates interest rate risk on a monthly basis using the following three methods:

- ▶ GAP analysis
- ▶ Duration method; this method applies certain weighting coefficients, which are based on duration of assets and liabilities, to each time interval where these financial instruments are categorized depending on remaining maturity
- ▶ Assessment of volatility of interest rates for interest-earning assets and liabilities. Calculation is based on statistical data on interest rates for the last three years.

Currency risk. The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk resulting from changes in foreign currency exchange rates.

Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily on the basis of statutory accounts data.

32 Financial risk management (continued)

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2015:

	RUB	USD	EUR	Other currencies	Precious metals	Total
Financial assets						
Cash and cash equivalents	11,674,459	947,053	886,179	13,973	58,063	13,579,727
Mandatory cash balances with the Central Bank of the Russian Federation	891,824	–	–	–	–	891,824
Due from banks	1,385,899	1,093	–	–	–	1,386,992
Financial instruments at fair value through profit or loss	13,967,346	5,747,688	–	–	–	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	8,618,303	–	–	–	–	8,618,303
Securities lent	656,365	–	–	–	–	656,365
Loans to customers	111,774,783	8,554,860	952,065	–	–	121,281,708
Investments available for sale	6,705,716	–	–	–	–	6,705,716
Investments available for sale pledged as collateral under sale and repurchase agreements	3,012,640	–	–	–	–	3,012,640
Other financial assets	2,322,009	47,190	17,256	–	–	2,386,455
Total financial assets	161,009,344	15,297,884	1,855,500	13,973	58,063	178,234,764
Financial liabilities						
Due to the Central Bank of the Russian Federation	16,264,946	–	–	–	–	16,264,946
Due to banks	11,806,812	2,023,495	2,453,203	–	–	16,283,510
Customer accounts	92,311,817	17,000,653	2,464,229	2,257	196,929	111,975,885
Debt securities issued	15,856,426	158,507	–	–	–	16,014,933
Eurobonds issued	–	1,027,256	–	–	–	1,027,256
Other borrowings	99,107	–	–	–	–	99,107
Other financial liabilities	363,622	11,944	3,575	–	199	379,340
Subordinated borrowings and Eurobonds	5,766,962	4,542,256	–	–	–	10,309,218
Total financial liabilities	142,469,692	24,764,111	4,921,007	2,257	197,128	172,354,195
Net balance sheet position	18,539,652	(9,466,227)	(3,065,507)	11,716	(139,065)	5,880,569
Effect of derivatives	(12,385,628)	9,256,103	2,948,796	–	138,942	(41,787)
Net position	6,154,024	(210,124)	(116,711)	11,716	(123)	5,838,782

32 Financial risk management (continued)

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2014:

	RUB	USD	EUR	Other currencies	Precious metals	Total
Financial assets						
Cash and cash equivalents	12,067,207	2,003,234	2,326,529	1,826	14,013	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	1,067,447	–	–	–	–	1,067,447
Due from banks	1,189,126	844	–	–	–	1,189,970
Financial instruments at fair value through profit or loss	18,470,853	5,911,372	–	–	–	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	7,931,456	–	–	–	–	7,931,456
Securities lent	1,477,238	–	–	–	–	1,477,238
Loans to customers	92,223,376	4,024,823	475,618	–	–	96,723,817
Investments available for sale	4,886,645	–	–	26,241	–	4,912,886
Other financial assets	2,449,235	8,660	547	7,758	–	2,466,200
Total financial assets	141,762,583	11,948,933	2,802,694	35,825	14,013	156,564,048
Financial liabilities						
Due to the Central Bank of the Russian Federation	13,004,610	–	–	–	–	13,004,610
Due to banks	8,252,933	1,187,508	2,498,315	–	–	11,938,756
Customer accounts	81,489,914	6,226,089	2,223,837	203	220,283	90,160,326
Debt securities issued	20,213,528	145,799	40,732	–	–	20,400,059
Eurobonds issued	–	3,820,534	–	–	–	3,820,534
Other borrowings	1,195,682	–	–	–	–	1,195,682
Other financial liabilities	458,327	9,237	3,299	–	32	470,895
Subordinated borrowings and Eurobonds	3,099,990	3,500,379	–	–	–	6,600,369
Total financial liabilities	127,714,984	14,889,546	4,766,183	203	220,315	147,591,231
Net balance sheet position	14,047,599	(2,940,613)	(1,963,489)	35,622	(206,302)	8,972,817
Effect of derivatives	(4,752,169)	2,419,111	2,084,452	–	–	(248,606)
Net position	9,295,430	(521,502)	120,963	35,622	(206,302)	8,724,211

Other price risks. Other price risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all similar instruments traded in the market. Other price risks arise when the Group takes a long or short position in a financial instrument.

Other price risk is managed in the range of approved limits:

- ▶ General limit of open position for instruments exposed to price risk (within limits on investments in securities approved by the Management Board)
- ▶ Limits of open position for individual financial instruments (limits on issuers of debt securities).

Approved limits are reviewed following changes in amounts of assets and liabilities, financial and liquidity positions, risk assessment of investments and changes in the legislation of the Russian Federation.

32 Financial risk management (continued)

Value at Risk (VaR) estimates. The Group uses Value at Risk method (VaR) to measure its exposures to market risk.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Group is based on a 99% confidence level.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of the following limitations, especially in less liquid markets:

- ▶ The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extraordinary nature
- ▶ A holding period assumes that all positions can be liquidated or hedged within that period. This is a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- ▶ The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- ▶ VaR is calculated on the end-of-day balances and does not reflect exposures that may arise on positions during the trading day
- ▶ The VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

For management accounting purposes, *currency risk assessed under VaR* is estimated by the Risk Management Department at the end of each month based on the Bank's open currency positions (OCP) recorded in statutory accounts. OCP is the difference between the amounts of assets and liabilities denominated in foreign currencies. The forecast horizon for calculation of currency risk is twenty days. The statistical calculations cover a 6-month period (not less than 120 trading days) using the variation-covariation method. VaR estimates are based on Russian statutory financial statements, therefore they do not necessarily reflect the Group's currency risk exposures under IFRS.

Foreign currency risk VaR amounts with a 20-day forecast horizon as at 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
VaR amount	18,085	8,939

For management accounting purposes, market risk assessed under VaR is determined on the basis of 1-day and 20-day forecast horizons. The statistical calculations cover a 6-month period (not less than 120 trading days) using the variation-covariation method. In 2015 and 2014, market risk VaR calculations included the portfolio of subsidiary IC "TFB-Finance" LLC.

Market risk for each time horizon includes:

- ▶ Calculation of equity risk for shares using the VaR method
- ▶ Calculation of interest rate risk for liquid bonds using the VaR method, taking into account the correlation between instruments and assuming that the correlation for the portfolio of Russian Government Federal Bonds is equal to 1
- ▶ Sensitivity analysis for illiquid bonds.

32 Financial risk management (continued)

The potential impact of changes in the market risk as at 31 December 2015 and 2014 on profit or loss is shown in the table below:

	31 December 2015	31 December 2014
1-day equity risk using the VaR method	2,313	3,810
1-day interest rate risk	315,816	315,192
20-day equity risk using the VaR method	8,745	16,950
20-day interest rate risk	793,899	732,767

Rate	Rate increase at 31 December 2015	Sensitivity of the income statement	Sensitivity of equity
Mid-term rate at the market for state short-term bonds and Russian Government Federal bonds	+660 b.p.	-98,601	-21,519
Long-term rate at the market for state short-term bonds and Russian Government Federal bonds	+315 b.p.	-48,495	-4,800

Rate	Rate decrease at 31 December 2015	Sensitivity of the income statement	Sensitivity of equity
Mid-term rate at the market for state short-term bonds and Russian Government Federal bonds	-660 b.p.	+98,601	+21,519
Long-term rate at the market for state short-term bonds and Russian Government Federal bonds	-315 b.p.	+48,495	+4,800

Rate	Rate increase at 31 December 2014	Sensitivity of the income statement
Average rate for Russian Government Federal bonds	+399 b.p.	-434,548

Rate	Rate decrease at 31 December 2014	Sensitivity of the income statement
Average rate for Russian Government Federal bonds	-399 b.p.	+434,548

32 Financial risk management (continued)

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

	Republic of Tatarstan	Other Russian regions	Other countries	Total
Financial assets				
Cash and cash equivalents	8,137,392	5,225,027	217,308	13,579,727
Mandatory cash balances with the Central Bank of the Russian Federation	–	891,824	–	891,824
Due from banks	398,606	988,386	–	1,386,992
Financial instruments at fair value through profit or loss	8,027,643	5,939,703	5,747,688	19,715,034
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	–	8,618,303	–	8,618,303
Securities lent	–	–	656,365	656,365
Loans to customers	85,930,631	27,600,158	7,750,919	121,281,708
Investments available for sale	6,120,216	585,500	–	6,705,716
Investments available for sale pledged as collateral under sale and repurchase agreements	–	3,012,640	–	3,012,640
Other financial assets	2,128,190	251,644	6,621	2,386,455
Total financial assets	110,742,678	53,113,185	14,378,901	178,234,764
Financial liabilities				
Due to the Central Bank of the Russian Federation	–	16,264,946	–	16,264,946
Due to banks	6,522,348	5,039,110	4,722,052	16,283,510
Customer accounts	74,225,776	37,656,116	93,993	111,975,885
Debt securities issued	721,339	15,293,594	–	16,014,933
Eurobonds issued	–	–	1,027,256	1,027,256
Other borrowings	99,107	–	–	99,107
Other financial liabilities	344,002	35,138	200	379,340
Subordinated borrowings and Eurobonds	5,766,962	–	4,542,256	10,309,218
Total financial liabilities	87,679,534	74,288,904	10,385,757	172,354,195
Net position	23,063,144	(21,175,719)	3,993,144	5,880,569
Total commitments and contingencies	10,151,360	6,647,695	422,880	17,221,935

32 Financial risk management (continued)

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

	Republic of Tatarstan	Other Russian regions	Other countries	Total
Financial assets				
Cash and cash equivalents	8,867,311	5,749,802	1,795,696	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	1,049,555	17,892	–	1,067,447
Due from banks	707,370	482,600	–	1,189,970
Financial instruments at fair value through profit or loss	7,497,842	10,973,011	5,911,372	24,382,225
Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements	40,921	7,890,535	–	7,931,456
Securities lent	–	–	1,477,238	1,477,238
Loans to customers	70,665,698	22,270,861	3,787,258	96,723,817
Investments available for sale	4,835,153	51,492	26,241	4,912,886
Other financial assets	2,150,369	315,705	126	2,466,200
Total financial assets	95,814,219	47,751,898	12,997,931	156,564,048
Financial liabilities				
Due to the Central Bank of the Russian Federation	–	13,004,610	–	13,004,610
Due to banks	5,697,433	2,709,805	3,531,518	11,938,756
Customer accounts	58,484,015	31,258,899	417,412	90,160,326
Debt securities issued	300,201	20,099,858	–	20,400,059
Eurobonds issued	–	–	3,820,534	3,820,534
Other borrowings	934,821	260,861	–	1,195,682
Other financial liabilities	431,313	34,543	5,039	470,895
Subordinated borrowings and Eurobonds	2,099,995	999,995	3,500,379	6,600,369
Total financial liabilities	67,947,778	68,368,571	11,274,882	147,591,231
Net position	27,866,441	(20,616,673)	1,723,049	8,972,817
Total commitments and contingencies	7,074,887	9,855,576	77,227	17,007,690

33 Capital management

The Group defines as capital those items that are defined in accordance with the legislation of the Russian Federation as capital (equity) of credit institutions.

The Group's objectives when managing capital are: (i) to comply with the capital requirements set by the CBR; (ii) to ensure the ability to continue as a going concern, (iii) to maximize the return on risk-adjusted capital, and (iv) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and Amendment to the Capital Accord to incorporate market risks (updated in November 2005). Compliance with the capital adequacy ratio set by the CBR is monitored monthly and reports outlining the calculation are reviewed and signed by the Chairman of the Management Board and Chief Accountant of the Bank.

The Group and the Bank are also subject to minimum capital requirements in accordance with the Basel Accord.

The capital adequacy ratio under the Basel Accord is calculated by the Reporting Department. Forecast calculation of the capital adequacy ratio is performed at least twice a year.

33 Capital management (continued)

The table below shows the components of the Group's capital and capital adequacy ratio calculated in accordance with the Basel Capital Accord as at 31 December 2015 and 2014:

	2015	2014
Total capital	15,718,935	16,590,971
Tier 1 capital	10,613,217	10,082,094
Tier 2 capital	5,105,718	5,054,555
Tier 3 capital	–	1,454,322
Risk-weighted assets	148,773,225	136,638,603
Credit risk	133,672,225	110,091,453
Market risk	15,101,000	26,547,150
Tier 1 capital adequacy ratio	7.13%	7.38%
Total capital adequacy ratio (Tier 1, Tier 2 and Tier 3 capital)	10.57%	12.14%

As at 31 December 2015, the Group recognized subordinated borrowing with the indefinite term in the amount of RUB 4,542,256 thousand within Tier 1 capital (Note 23).

As part of the program of State Corporation "Deposit Insurance Agency" to increase capitalization, on 29 January 2016, the Bank attracted subordinated loan of RUB 1,416,580 thousand (Note 39). With the subordinated loan recognized, the Group's capital computed on the basis of Basel Capital Accord as at 31 December 2015 would have amounted to RUB 17,135,515 thousand, and the total capital adequacy ratio would have amounted to 11.52%.

34 Commitments and contingencies

Legal proceedings. From time to time, in the ordinary course of business the Group is subject to legal actions. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group (31 December 2014: will not have a material adverse effect on the financial position or the results of future operations of the Group).

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by tax authorities. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities at any time in the future.

The calculation of tax liabilities is subject to review and detailed investigation by the tax authorities that have the power to collect taxes and impose fines and penalties. The field audits of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year when the tax authorities made the decision to conduct the tax audit. Under certain circumstances, audits may cover longer periods.

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows Russian tax authorities to adjust the tax base and impose additional income tax and, in certain cases, VAT in respect of all controlled transactions if the transaction price differs from the market price. Controlled transactions may include transactions with related parties and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities and derivative financial instruments.

Given that the transfer pricing rules came into force as recently as 2012, there remains uncertainty as to their practical application together with the application of other tax rules established by other chapters of the Tax Code of the Russian Federation.

34 Commitments and contingencies (continued)

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and application of tax legislation, and in performing tax audits and assessing additional taxes. Consequently, the tax authorities may challenge the transactions and operations of the Group which have not been challenged before. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

These circumstances give rise to tax risks in the Russian Federation that are substantially more significant than similar risks in other countries. Management believes that tax liabilities were fully disclosed in these consolidated financial statements based on management's interpretation of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of tax legislation by various regulatory authorities could differ from management's opinion and their effect on the financial position of the Group, if the regulatory authorities were successful in enforcing their interpretations, could be significant.

Based on the available information, no provision for potential tax liabilities was made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such liabilities.

In 2015, the Tax Code of the Russian Federation was amended with the provisions introducing the concepts "controlled foreign company", "tax resident of the Russian Federation" and "person who has the actual right to income". Currently, it is impossible to accurately assess the potential tax effect of these changes for the Group. At the same time, the changes have no actual effect on the Group's financial result for 2015, since any additional tax liabilities arising due to the adoption of the law (if any) will be recorded in subsequent reporting periods.

Capital expenditure commitments. As at 31 December 2015, the Group has contractual capital expenditure commitments, including commitments to purchase equipment, in the total amount of RUB 520 thousand (31 December 2014: RUB 11,123 thousand).

Operating lease commitments. Where the Group acts as a lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2015	31 December 2014
Less than 1 year	205,591	264,572
From 1 to 5 years	188,651	301,635
More than 5 years	–	24,504
Total operating lease commitments	394,242	590,711

As at 31 December 2015, total future minimum payments receivable under non-cancellable operating leases amount to RUB 24,699 thousand (31 December 2014: RUB 111,264 thousand).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of management's authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to commitments to extend credit, the Group is potentially exposed to the risk of losses in the amount equal to the total unused commitments. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers meeting certain creditworthiness requirements. The Group monitors the term to maturity of credit related commitments, as long-term commitments have a greater degree of credit risk than short-term commitments.

The total outstanding contractual amount of undrawn credit facilities and guarantees does not necessarily represent future cash requirements, as these liabilities may expire or terminate without being funded.

34 Commitments and contingencies (continued)

Credit related commitments comprise:

	31 December 2015	31 December 2014
Undrawn credit facilities	5,674,975	6,643,796
Guarantees issued	11,152,198	9,762,060
Total credit related commitments	16,827,173	16,405,856

Credit related commitments are denominated in the following currencies:

	31 December 2015	31 December 2014
RUB	16,263,616	15,926,257
USD	31,776	208,757
EUR	531,781	270,842
Total credit related commitments	16,827,173	16,405,856

Transferred financial assets not derecognized in their entirety. The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	31 December 2015		31 December 2014	
	Pledged assets	Related liability	Pledged assets	Related liability
Securities pledged as collateral under sale and repurchase agreements with other banks				
- Financial instruments at fair value through profit or loss	10,230,607	8,692,861	7,931,456	6,500,966
- Investments available for sale	3,731,584	3,148,696	-	-
Securities pledged as collateral under sale and repurchase agreements with customers				
- Financial instruments at fair value through profit or loss	1,777,163	1,681,808	2,450,500	2,149,349
Assets provided as collateral for State Corporation "Deposit Insurance Agency"				
- Credit claims	2,349,592	-	2,142,608	-
- Financial instruments at fair value through profit or loss	4,965,764	-	5,078,681	-
Total	23,054,710	13,523,365	17,603,245	8,650,315

Under certain agreements, the counterparty may sell or repledge securities sold under sale and repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the agreement.

Since 27 May 2014, the CBR together with State Corporation "Deposit Insurance Agency" has been implementing bankruptcy prevention measures for PJSC "Timer Bank" (former JSCB BTA-Kazan (OJSC)). The Bank was appointed as a turnaround manager upon a proposal by the government of the Republic of Tatarstan. To secure the obligations of PJSC "Timer Bank" to State Corporation "Deposit Insurance Agency", the Bank pledged credit claims and the financial instruments it owned totaling RUB 7,315,356 thousand (31 December 2014: RUB 7,221,289 thousand).

34 Commitments and contingencies (continued)

Assets held as collateral. The Group holds certain assets as collateral. Financial assets received by the Group as collateral under reverse repo agreements are presented in the table below:

	31 December 2015		31 December 2014	
	Assets received	Associated assets	Assets received	Associated assets
Securities received as collateral under reverse repurchase agreements with other banks (Notes 7,8)	974,186	927,941	772,256	545,623
Securities received as collateral under reverse repurchase agreements with customers (Note 13)	3,435,301	4,115,115	1,678,244	1,603,726
Total	4,409,487	5,043,056	2,450,500	2,149,349

The Group may sell or repledge securities received as loans or purchased under reverse repo agreements but is obliged to return the securities. In this case, the counterparty retains almost all risks and rewards of ownership. Accordingly, the Group does not recognize such securities and records a separate asset for any possible collateral provided as cash.

35 Fair value measurement

The estimated fair value of financial instruments is determined by the Group based on the available market information (if any) and appropriate valuation techniques. Professional judgment is applied to interpret market information for the purpose of determining fair value. The economy of the Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair value of financial instruments. Management uses all available market information in determining the fair value of financial instruments.

Financial instruments at fair value through profit or loss and investments available for sale (other than unquoted securities for which it is impracticable to determine fair value) are carried in the consolidated statement of financial position at their fair value. The fair value is determined based on market prices except for those securities for which no external independent market price quotations are available.

Valuation methods for unquoted securities and equity securities not traded in the active market required certain assumptions that are not supported by observable market data. An active market is a market which satisfies the following conditions: items traded in the market are homogenous; willing sellers and buyers are generally available at any time; information on prices is publicly available. Indicators of abnormal market conditions (i.e. of an inactive market) can be large spreads between the purchase price and the selling price or a relatively small number of bids.

The estimated fair value of other financial instruments is determined based on the discounted future cash flows expected to be received or paid.

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-based rate for a similar instrument at the reporting date.

The fair value of floating interest rate instruments is generally equal to their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated cash flows, discounted at current lending market interest rates for new instruments with similar credit risk and maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

The estimated fair values of all financial instruments, except for loans to corporate entities, approximate their carrying values.

35 Fair value measurement (continued)

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability; or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

The following table shows the analysis of assets and liabilities as at 31 December 2015 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial instruments at fair value through profit or loss:				
- Held by the Group	3,952,593	6,588,294	9,174,147	19,715,034
- Pledged as collateral under sale and repurchase agreements	6,246,409	2,371,894	–	8,618,303
Securities lent	–	–	656,365	656,365
Investments available for sale:				
- Held by the Group	577,715	7,784	6,120,217	6,705,716
- Pledged as collateral under sale and repurchase agreements	1,537,535	1,475,105	–	3,012,640
Investment property	–	–	1,172,106	1,172,106
Property and equipment	–	–	757,295	757,295
Derivative financial assets	–	50,965	–	50,965
Assets for which fair values are disclosed				
Due from banks	–	1,434,178	–	1,434,178
Loans to customers	–	–	120,751,326	120,751,326
Other financial assets	–	–	2,270,982	2,270,982
Liabilities measured at fair value				
Derivative financial liabilities	–	6,485	–	6,485
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	–	16,264,946	–	16,264,946
Due to banks	–	15,862,276	–	15,862,276
Customer accounts	–	–	113,533,992	113,533,992
Debt securities issued:				
- Bonds	13,246,391	1,035,569	–	14,281,960
- Promissory notes	–	–	1,804,657	1,804,657
Eurobonds issued	–	1,045,448	–	1,045,448
Other borrowings	–	–	88,438	88,438
Subordinated borrowings and Eurobonds	–	–	9,356,437	9,356,437

35 Fair value measurement (continued)

The following table shows the analysis of assets and liabilities as at 31 December 2014 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial instruments at fair value through profit or loss:				
- Held by the Group	7,884,303	7,853,650	8,644,272	24,382,225
- Pledged as collateral under sale and repurchase agreements	3,527,007	4,404,449	–	7,931,456
Securities lent	–	–	1,477,238	1,477,238
Investments available for sale:				
- Held by the Group	51,492	26,240	4,835,154	4,912,886
Investment property	–	–	1,492,917	1,492,917
Property and equipment	–	–	716,566	716,566
Derivative financial assets	–	9,329	–	9,329
Assets for which fair values are disclosed				
Due from banks	–	1,159,105	–	1,159,105
Loans to customers	–	–	94,412,084	94,412,084
Other financial assets	–	–	2,350,087	2,350,087
Liabilities measured at fair value				
Derivative financial liabilities	–	14,515	–	14,515
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	–	13,004,610	–	13,004,610
Due to banks	–	11,338,179	–	11,338,179
Customer accounts	–	–	90,800,134	90,800,134
Debt securities issued:				
- Bonds	17,263,463	–	–	17,263,463
- Promissory notes	–	–	1,028,167	1,028,167
Eurobonds issued	–	3,870,686	–	3,870,686
Other borrowings	–	–	1,089,506	1,089,506
Subordinated borrowings and Eurobonds	–	–	5,727,774	5,727,774

Transfers between Level 1 and Level 2. The table below shows the transfers between Level 1 and Level 2 of the fair value hierarchy in 2015 for financial assets and liabilities measured at fair value:

	Transfers from Level 2 to Level 1 for the year ended 31 December 2015
Financial assets	
Financial instruments at fair value through profit or loss	1,029,330
Total	1,029,330

35 Fair value measurement (continued)

The reason for the transfer of certain financial instruments from Level 2 to Level 1 of the fair value hierarchy is that the market for some securities has become active, and since the transfer, these financial instruments have been valued using quoted prices in active markets.

	Transfers from Level 1 to Level 2 for the year ended 31 December 2015
Financial assets	
Financial instruments at fair value through profit or loss	232,098
Total	232,098

The reason for the transfer of certain financial instruments from Level 1 to Level 2 of the fair value hierarchy is that the market for some securities has become inactive, and since the transfer, these financial instruments have been valued using valuation techniques incorporating observable inputs.

Changes in fair value measurements related to Level 3 of the fair value hierarchy may be presented as follows:

	Financial instruments at fair value through profit or loss		Investment securities available for sale	
	2015	2014	2015	2014
Balance at the beginning of the period	10,121,510	4,632,585	4,835,154	4,622,808
Total gains or losses recorded within:				
- Profit or loss	(1,198,929)	(302,055)	900,695	45,708
- Other comprehensive income	-	-	232,500	(96,682)
Purchases	3,694,258	5,788,319	12,445,041	2,403,008
Sales	(2,786,327)	-	(11,567,459)	(2,139,688)
Repayments	-	-	(725,714)	-
Transferred to Level 3 instruments	-	2,661	-	-
Balance at the end of the period	9,830,512	10,121,510	6,120,217	4,835,154
Unrealized (losses) for the period included in financial result for assets held at the reporting date	(585,670)	(1,660,597)	927,828	-
Unrealized gains (losses) for the period included in other comprehensive income for assets held at the reporting date	-	-	194,070	(97,558)

The Group believes that its estimates of the fair value are appropriate; however, the use of different methodologies and judgments could lead to different fair value measurements. Changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions would have had the following effect on the calculation results as at 31 December 2015:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	983,051	(983,051)	-	-
Investments available for sale	-	-	612,022	(612,022)
Investment property	117,210	(117,210)	-	-
Property and equipment	-	-	75,730	(75,730)
Total	1,100,261	(1,100,261)	687,752	(687,752)

35 Fair value measurement (continued)

Changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions would have had the following effect on the calculation results as at 31 December 2014:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	1,012,151	(1,012,151)	–	–
Investments available for sale	–	–	483,515	(483,515)
Investment property	149,292	(149,292)	–	–
Property and equipment	–	–	71,657	(71,657)
Total	1,161,443	(1,161,443)	555,172	(555,172)

Impact of changes in significant unobservable inputs on the measurement of financial instruments categorized within Level 3 of the fair value hierarchy. The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 31 December 2015:

	Carrying amount	Valuation techniques	Unobservable inputs	Range
Equity securities				
Mutual funds	9,341,864	Net asset value	Net assets	Not applicable
Real estate	1,751,238	Net asset value	Net assets	Not applicable
Finance	430,732	Net asset value	Net assets	Not applicable
Manufacturing	231,654	Net asset value	Net assets	Not applicable
Debt securities				
Trade	3,058,476	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4%-6% 10%
Finance	480,400	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4% 9%
Securities lent				
Mutual funds	656,365	Net asset value	Net assets	Not applicable
Total	15,950,729			

The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 31 December 2014:

	Carrying amount	Valuation techniques	Unobservable inputs	Range
Equity securities				
Mutual funds	8,821,700	Net asset value	Net assets	Not applicable
Real estate	880,028	Net asset value	Net assets	Not applicable
Manufacturing	222,123	Net asset value	Net assets	Not applicable
Debt securities				
Trade	3,116,736	Discounted cash flows	Credit risk of the issuer Risk-free return rate	5% 13%-14%
Finance	438,839	Discounted cash flows	Credit risk of the issuer Risk-free return rate	5% 13%
Securities lent				
Mutual funds	1,477,238	Net asset value	Net assets	Not applicable
Total	14,956,664			

35 Fair value measurement (continued)

Financial instruments not carried at fair value in the statement of financial position. The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position as at 31 December 2015. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2015		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,386,992	1,434,178	47,186
Loans to customers	121,281,708	120,751,326	(530,382)
Other financial assets	2,335,490	2,270,982	(64,508)
Financial liabilities			
Due to banks	16,283,510	15,862,276	421,234
Customer accounts	111,975,885	113,533,992	(1,558,107)
Debt securities issued	16,014,933	16,086,617	(71,684)
Eurobonds issued	1,027,256	1,045,448	(18,192)
Other borrowings	99,107	88,438	10,669
Subordinated borrowings and Eurobonds	10,309,218	9,356,437	952,781
Total unrecognized change in fair value			(811,003)

For such items of the consolidated statement of financial position as "Cash and cash equivalents", "Mandatory cash balances with the Central Bank of the Russian Federation", "Due to the Central Bank of the Russian Federation", "Other financial liabilities" and "Subordinated borrowings and Eurobonds" the fair value is deemed as equal to the carrying amount and, therefore, is not disclosed in the table above.

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position as at 31 December 2014. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2014		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,189,970	1,159,105	(30,865)
Loans to customers	96,723,817	94,412,084	(2,311,733)
Other financial assets	2,456,871	2,350,087	(106,784)
Financial liabilities			
Due to banks	11,938,756	11,338,179	600,577
Customer accounts	90,160,326	90,800,134	(639,808)
Debt securities issued	20,400,059	18,291,630	2,108,429
Eurobonds issued	3,820,534	3,870,686	(50,152)
Other borrowings	1,195,682	1,089,506	106,176
Subordinated borrowings and Eurobonds	6,600,369	5,727,774	872,595
Total unrecognized change in fair value			548,435

For such items of the consolidated statement of financial position as "Cash and cash equivalents", "Mandatory cash balances with the Central Bank of the Russian Federation", "Due to the Central Bank of the Russian Federation", "Other financial liabilities" and "Subordinated borrowings and Eurobonds" the fair value is deemed as equal to the carrying amount and, therefore, is not disclosed in the table above.

36 Offsetting of financial instruments

The tables below show financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2015						
Financial assets						
Purchase and resale agreements ("reverse repo")	5,043,055	–	5,043,055	(5,043,055)	–	–
Total financial assets	5,043,055	–	5,043,055	(5,043,055)	–	–

	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2015						
Financial liabilities						
Sale and repurchase agreements	13,523,365	–	13,523,365	(10,901,936)	–	2,621,429
Total financial liabilities	13,523,365	–	13,523,365	(10,901,936)	–	2,621,429

As at 31 December 2015, commitments under repurchase agreements in the amount of RUB 2,621,429 thousand were effectively collateralized by own securities with a fair value of RUB 2,820,395 thousand received under reverse repurchase agreements.

As at 31 December 2015, there were no derivative financial instruments subject to offset.

36 Offsetting of financial instruments (continued)

In accordance with the Russian legislation, assets pledged as collateral may be used by the parties in repayment of debt in case of non-fulfillment of liabilities under sale and repurchase agreement.

	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2014						
Financial assets						
Derivative financial assets	9,113	–	9,113	(7,614)	–	1,499
Purchase and resale agreements ("reverse repo")	2,149,349	–	2,149,349	(2,149,349)	–	–
Total financial assets	2,158,462	–	2,158,462	(2,156,963)	–	1,499

	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2014						
Financial liabilities						
Derivative financial liabilities	7,614	–	7,614	(7,614)	–	–
Sale and repurchase agreements	8,221,211	–	8,221,211	(7,046,529)	–	1,174,682
Total financial liabilities	8,228,825	–	8,228,825	(7,054,143)	–	1,174,682

In accordance with the general agreement, the parties are entitled to settle counter liabilities resulting from derivative transactions through offset (netting).

As at 31 December 2014, commitments under repurchase agreements in the amount of RUB 1,174,682 thousand were effectively collateralized by securities with a fair value of RUB 1,475,128 thousand received under reverse repurchase agreements.

37 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Bank is a part of a group of related parties. These related parties are ultimately controlled by individuals, none of whom holds a controlling interest in any entity within the group of related parties. Transactions with the members of such group of related parties are disclosed in the table below as transactions with other related parties.

Banking transactions are entered into with significant shareholders, directors and other related parties. Such transactions include settlements, loans, deposit taking, trade financing and foreign currency transactions.

The Group is under significant influence of the Government of the Republic of Tatarstan, and in the ordinary course of business it cooperates with various companies controlled by the Government of the Republic of Tatarstan. Transactions with companies controlled or significantly influenced by the Government of the Republic of Tatarstan comprise loans, current accounts, deposits and subordinated borrowings.

37 Related party transactions (continued)

At 31 December 2015, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Due from banks (contractual interest rate: 1%)	-	-	397,604	-	397,604
Financial instruments at fair value through profit or loss (Note 9)	-	-	8,027,643	-	8,027,643
Loans to customers, gross (contractual interest rate: 7%-25%)	4,656,456	30,292	6,575,923	117,299	11,379,970
Allowance for loan impairment	(191,097)	(73)	(713,966)	(4,937)	(910,073)
Investments available for sale (contractual interest rate: 15%)	911,132	-	-	-	911,132
Other assets	-	3	93	808	904
Due to banks (contractual interest rate: 11-15%) (Note 17)	-	-	(5,648,169)	-	(5,648,169)
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(87,842)	(6,030)	(30,819)	(51)	(124,742)
- Term deposits (contractual interest rate: 1%-16%)	(48,209)	(69,716)	(14,030)	(70,303)	(202,258)
Other liabilities	-	-	(1,589)	-	(1,589)
Subordinated borrowings (contractual interest rate: 8%-12%) (Note 23)	(1,249,997)	-	-	(4,516,965)	(5,766,962)
Obligation to purchase interest in a subsidiary	-	-	(32,076)	-	(32,076)
Non-controlling interests:	(1,481,540)	-	(148,603)	-	(1,630,143)
- Within liabilities	(1,468,373)	-	(71,490)	-	(1,539,863)
- Within equity	(13,167)	-	(77,113)	-	(90,280)
Liabilities on repurchase of loans assigned	-	-	98,405	-	98,405

As at 31 December 2015, loans issued to the related parties of the Group in the amount of RUB 8,437,857 thousand (31 December 2014: RUB 4,826,097 thousand) net of allowance for impairment in the amount of RUB 785,299 thousand (31 December 2014: RUB 747,195 thousand) were partially or fully unsecured.

As at 31 December 2015, loans and accounts receivable in the amount of RUB 7,908,013 thousand (31 December 2014: RUB 6,930,547 thousand) net of allowance for impairment in the amount of RUB 770,152 thousand (31 December 2014: RUB 1,137,904 thousand) were issued to financial companies that are related parties of the Group, as these financial companies are controlled or significantly influenced by the Group's shareholders or key management personnel (Note 12). These loans are secured by collateral of various investments not traded in an active market and other assets in the total amount of RUB 2,162,537 thousand (31 December 2014: RUB 2,936,649 thousand).

37 Related party transactions (continued)

As at 31 December 2015, surety agreements from the Group's related parties for the amount of RUB 10,527,109 thousand were received on loans to customers in the amount of RUB 9,943,238 thousand.

Income and expenses for 2015 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	123,028	3,052	841,869	17,127	985,076
Interest expense	(108,846)	(9,089)	(608,203)	(285,323)	(1,011,461)
Reversal of allowance/(allowance) for impairment of assets	(146,102)	(2)	451,256	1,740	306,892
Fee and commission income	940	166	5,956	24	7,086
Fee and commission expense	-	-	(31,307)	-	(31,307)
Net gains from foreign currencies	302	34	46	-	382
Losses from derivative financial instruments	(1,749,472)	-	-	-	(1,749,472)
Other operating income	8	3	1,323	-	1,334
Administrative and other operating expenses	(2,220)	(856)	(107)	(422)	(3,605)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company, and mutual funds	(79,683)	-	(1,456)	-	(81,139)
Loss attributable to non-controlling interests	(29)	-	(171)	-	(200)
Net gain from the acquisition of a subsidiary	-	-	1,314,574	-	1,314,574

The gain from the acquisition of "Gazovik" LLC on 31 July 2015 from a company associated with the Bank's shareholders is recorded in the statement of comprehensive income (Note 6).

In 2015, equity includes RUB 650,000 thousand received from the write-off of obligations to a shareholder and RUB 227,883 thousand paid in favor of shareholders for the acquisition of shares in a Russian company from a shareholder of the Bank at a price exceeding the fair value.

Aggregate amounts lent to and repaid by related parties in 2015 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the year	4,082,361	3,166	2,642,429	16,500	6,744,456
Amounts repaid by related parties during the year	(249,289)	(4,234)	(3,509,185)	(23,769)	(3,786,477)
Change in related parties	(33,842)	1,718	2,464	-	(29,660)

37 Related party transactions (continued)

At 31 December 2014, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Due from banks (contractual interest rate: 1%)	-	-	351,110	-	351,110
Financial instruments at fair value through profit or loss (Note 8)	-	-	5,164,027	-	5,164,027
Loans to customers, gross (contractual interest rate: 6%-18%)	857,226	29,642	7,440,215	124,568	8,451,651
Allowance for loan impairment	(44,995)	(71)	(1,165,222)	(6,677)	(1,216,965)
Investments available for sale (contractual interest rate: 14%)	1,318,867	-	-	-	1,318,867
Other assets	1,639,985	2	478	-	1,640,465
Due to banks (contractual interest rate: 8%-20%) (Note 16)	-	-	(3,699,582)	-	(3,699,582)
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(42,582)	(2,170)	(97,813)	(1,877)	(144,442)
- Term deposits (contractual interest rate: 0%-23%)	(38,604)	(36,996)	(10,611)	(342,214)	(428,425)
Debt securities issued (contractual interest rate: 0%)	-	-	(300,201)	-	(300,201)
Other liabilities	-	-	(2,542)	-	(2,542)
Subordinated borrowings (contractual interest rate: 8%-13%) (Note 22)	(999,995)	-	(3,500,379)	(2,099,995)	(6,600,369)
Obligation to purchase interest in a subsidiary	-	-	(32,078)	-	(32,078)
Non-controlling interests:	(1,570,321)	-	(216,288)	-	(1,786,609)
- Within liabilities	(1,557,345)	-	(70,034)	-	(1,627,379)
- Within equity	(12,976)	-	(146,254)	-	(159,230)

Income and expenses for 2014 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	34,651	666	573,036	14,456	622,809
Interest expense	(94,891)	(2,989)	(437,259)	(186,558)	(721,697)
Reversal of allowance/(allowance) for impairment of assets	12,350	(67)	(525,909)	(2,127)	(515,753)
Fee and commission income	452	144	1,438	82	2,116
Fee and commission expense	(2,127)	-	(46,522)	-	(48,649)
Net gains (losses) from foreign currencies	885	394	13	-	1,292
Income from agency operations related to third party property insurance	-	-	59,111	-	59,111
Other operating income	-	-	1,574	291	1,865
Administrative and other operating expenses	(8,972)	(51,476)	(121)	-	(60,569)
Profit attributable to non-controlling interests	41,604	-	3,006	-	44,610

37 Related party transactions (continued)

In 2014, equity includes RUB 880,028 thousand received from the write-off of obligations to a company controlled by shareholders, net of income tax paid in the amount of RUB 176,000 thousand.

Aggregate amounts lent to and repaid by related parties in 2014 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the year	4,749,875	29,682	17,133,192	38,663	21,951,412
Amounts repaid by related parties during the year	(5,198,484)	(348)	(13,272,819)	(17,411)	(18,489,062)
Change in related parties	–	(629)	(371,519)	–	(372,148)

Compensations to key management for the years ended 31 December 2015 and 2014 are presented below:

	2015	2014
Salaries	30,520	34,000
Short-term bonuses	9,735	17,513
Total	40,255	51,513

Comparative data have been adjusted with account for year-end bonuses for 2014.

38 Subsidiaries

The following major subsidiaries are included in the consolidated financial statements of the Group:

Subsidiary	Interest, %		Principal place of business	Country of incorporation	Nature of operations
	31 December 2015	31 December 2014			
IC "TFB-Finance" LLC	68	68	Russian Federation	Russian Federation	Asset management
PJSC NCB "Radiotechbank"	58.39	58.39	Russian Federation	Russian Federation	Banking
"Gazovik" LLC	100	–	Russian Federation	Republic of Tatarstan	Agriculture

Subsidiaries with significant non-controlling interests The following table contains information on subsidiaries with significant non-controlling interests as at 31 December 2015. Accumulated non-controlling interests are presented with account for the offer.

	Non-controlling interests, %	Profit attributed to non-controlling interests during 2015	Accumulated non-controlling interests at 31 December 2015	Dividends paid on non- controlling interests during 2015
IC "TFB-Finance" LLC	32	68,477	1,308,671	–
PJSC NCB "Radiotechbank"	41.61	2,442	167,052	–

The following table contains information on subsidiaries with significant non-controlling interests as at 31 December 2014. Accumulated non-controlling interests are presented with account for the offer.

	Non-controlling interests, %	Profit attributed to non-controlling interests during 2014	Accumulated non-controlling interests at 31 December 2014	Dividends paid on non- controlling interests during 2014
IC "TFB-Finance" LLC	32	32,144	1,240,194	–
PJSC NCB "Radiotechbank"	41.61	89	164,610	–

38 Subsidiaries (continued)

Below is a summary of the financial information of PJSC NCB "Radiotechbank" as at 31 December 2015 and for the year then ended. This information is based on amounts before elimination of intra-group transactions.

	31 December 2015	31 December 2014
Cash and cash equivalents	673,961	278,524
Mandatory cash balances with the Central Bank of the Russian Federation	13,307	17,892
Due from banks	7,536	17,036
Financial instruments at fair value through profit or loss	286,851	167,096
Loans to customers	1,898,848	1,364,461
Investments available for sale	49,695	46,206
Investment property	76,500	102,050
Property and equipment	14,860	19,813
Other assets	140,424	170,651
Total assets	3,161,982	2,183,729
Due to the Central Bank of the Russian Federation	24,092	–
Due to banks	64,643	38,761
Customer accounts	2,398,539	1,733,023
Other liabilities	23,257	10,940
Subordinated borrowings	250,000	–
Total liabilities	2,760,531	1,782,724
Share capital	484,029	484,029
Revaluation reserve for investments available for sale	(1,433)	(2,194)
Accumulated deficit	(81,145)	(80,830)
Total equity attributable to the equity holders of the Bank	401,451	401,005
Total liabilities and equity	3,161,982	2,183,729
	2015	2014
Interest income	346,259	319,814
Interest expense	(164,021)	(134,314)
Net interest income	182,238	185,500
Fee and commission income	68,866	63,511
Fee and commission expense	(8,710)	(5,978)
Net fee and commission income	60,156	57,533
Net gains/(losses) from financial instruments at fair value through profit or loss	6,551	(12,348)
Gains less (losses) from foreign currencies and foreign exchange derivatives, and from foreign currency translation	4,801	5,061
Net (losses)/gains from investments available for sale	(846)	871
Other operating income	4,003	5,490
Allowance for impairment	(52,148)	(33,932)
Administrative and other operating expenses	(199,823)	(203,026)
Profit before tax	4,932	5,149
Income tax (expense)	(5,609)	(4,934)
(Loss)/profit for the period	(677)	215
Other comprehensive loss attributable to equity holders of the Bank, net of tax	(1,146)	(1,755)
Total comprehensive loss	(1,823)	(1,540)

38 Subsidiaries (continued)

	2015	2014
Net cash from operating activities	30,757	28,002
Net cash from (used in) investing activities	34,783	(52,540)
Net cash from financing activities	250,000	–
Effect of exchange rate changes on cash and cash equivalents	4,897	12,690
Net increase (decrease) in cash and cash equivalents	320,437	(11,848)

Summarized financial information for IC "TFB-Finance" LLC as at 31 December 2015 and for the year then ended is presented below. This information is based on amounts before elimination of intra-group transactions.

	31 December 2015	31 December 2014
Cash and cash equivalents	32,413	198,462
Financial instruments at fair value through profit or loss		
- Held by the Group	556,573	20,370
- Pledged as collateral under sale and repurchase agreements	2,101,451	26,241
Loans to customers	4,441,379	3,968,678
Other assets	55,006	27,855
Total assets	7,186,822	4,241,606
Due to banks	2,118,800	20,007
Customer accounts	596,777	–
Other liabilities	40,565	28,841
Non-controlling interests	341,082	317,151
Total liabilities	3,097,224	365,999
Total equity attributable to the participants	4,089,598	3,875,607

	2015	2014
Interest income	461,364	159,735
Interest expense	(208,498)	(47,052)
Net interest income	252,866	112,683
Fee and commission income	119,219	95,908
Fee and commission expense	(14,681)	(15,052)
Net fee and commission income	104,538	80,856
Net (losses)/gains from financial instruments at fair value through profit or loss	(113,458)	146,831
Gains/(losses) less (losses)/gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	904	(56,067)
Net (losses) from investments available for sale	(57,168)	(90,990)
Other operating income	180	155,640
Allowance for impairment	73,653	(280,371)
Administrative and other operating (expenses)/income	(38,822)	104,825
Profit before tax	222,693	173,407
Income tax (expense)	(18,181)	(129)
Profit for the period	204,512	173,278
Other comprehensive income/(loss), net of tax	7,583	(114,245)
Total comprehensive income	212,095	59,033

38 Subsidiaries (continued)

Disposal of “TFB-Zaim” LLC

On 31 December 2014, the Group lost control over “TFB-Zaim” LLC as a result of the sale of 90% in the charter capital to an unrelated third party. As a result of this disposal, the Group recognized a gain of RUB 1,562,998 thousand in other income.

The assets and liabilities of “TFB-Zaim” LLC at the date of the disposal are presented in the table below:

	31 December 2014
Cash and cash equivalents	5,970
Due from banks	35,731
Loans to customers	2,471,147
Property and equipment	652
Other assets	7,939
Total assets	2,521,439
Debt securities issued	1,505,392
Other borrowings	2,715,419
Other liabilities	8,708
Total liabilities	4,229,519
Total equity attributable to the participants	(1,708,080)

The total consideration for the sale was as follows:

	2014
Cash received	25,726
Total consideration	25,726

Cash inflow from the disposal of the subsidiary was as follows:

	2014
Net cash disposed of with the subsidiary (included in cash flows from financing activities)	(5,970)
Cash received (included in cash flows from financing activities)	25,726
Net increase in cash and cash equivalents	19,756

39 Events after the reporting date

On 27 January 2016, Closed-end private equity mutual fund “Professional” acquired 100% shares of JSC “Eidos-Dnaform”. In partnership with RIKEN Institute, JSC “Eidos-Dnaform” produces domestic equipment and reagents for ultrafast genetic testing. As at the date of signing these financial statements, the financial result from acquisition has not yet been estimated.

As part of the program of State Corporation “Deposit Insurance Agency” (the “DIA”) to increase capitalization, on 29 January 2016, the Bank attracted subordinated loan of RUB 1,416,580 thousand. The DIA purchased the Bank’s subordinated debt through the transfer of Russian Government Federal Bonds. Subordinated debt will be repaid by the Bank in 2025, 2027, 2029, 2032 and 2034.

Interest (coupon) rate applicable to the Bank’s subordinated debt equals the coupon rate applicable to OFZ transferred to the Bank increased by 1% p.a. The debt is repaid twice a year, which is the same as the repayment schedule for OFZ transferred to the Bank.

39 Events after the reporting date (continued)

In accordance with IAS 39, securities borrowed under an agreement providing for their return to the transferor continue to be recognized by the transferor and are not recognized in the balance sheet of the recipient of the securities, since the transferor substantially retains all rewards of securities ownership. Accordingly, the liability to return the securities is also not recognized in the Bank's statement of financial position in the financial statements prepared in accordance with IFRS.

By the decision of the Board of Directors of the Central Bank of the Russian Federation, the Bank was appointed a turnaround manager of JSC Bank "Sovetsky" in the course of the tender held. As part of efforts to prevent bankruptcy of JSC Bank "Sovetsky", the Bank acquired 99.99% of its shares on 16 March 2016. As at the date of signing these financial statements, the financial result from acquisition has not yet been estimated.

On 5 February 2016, the Group fully repaid Series BO-7 bonds issued on 8 February 2013 in the amount of RUB 3 billion.

On 16 February 2016, the Bank placed Series BO-17 bonds amounting to RUB 2 billion at their nominal value with a coupon rate of 14.5% p.a. The bonds mature on 3 February 2026 and are subject to an offer on 21 February 2017.

On 16 March 2016, PJSC "Tatfondbank" acquired a 99.999% common equity stock of JSC "Bank "Sovetsky". The shares were purchased in accordance with the bank's rehabilitation plan to expand its presence. On 24 April 2016, the control over JSC "Bank "Sovetsky" was transferred from State Corporation "Deposit Insurance Agency" ("DIA") to PJSC "Tatfondbank".

On 17 March 2016, JSC "Bank "Sovetsky" received a loan from SC "Deposit Insurance Agency" (DIA) in the amount of RUB 10,790,000 thousand at 0.51% p.a. (discounted at the effective rate of 14.81%) in the course of implementing measures provided for by the plan of DIA's participation in the bankruptcy prevention procedures in respect of JSC "Bank "Sovetsky". The loan matures on 17 March 2026. As at the date of control transfer, the fair value of the loan amounted to RUB 3,051,085 thousand. To secure the obligations of JSC "Bank "Sovetsky" to SC "Deposit Insurance Agency", the Group pledged receivables under loan agreements totaling RUB 12,416,321 thousand (including the Bank: RUB 7,875,738 thousand and JSC "Bank "Sovetsky": RUB 4,540,583 thousand).

On 30 June 2016, under the agreement to increase net assets, the Bank's shareholder provided debt-free financing in the amount of RUB 1,500,000 thousand, which was included in tier 1 capital.

On 18 July 2016, PJSC "Kazanorgsintez", a member of the group of companies of OJSC "TAIF", placed a subordinated deposit with the Bank for RUB 4,000,000 thousand for eight years bearing an interest rate of 10% p.a.

On 21 July and 28 July 2016, JSC "Tatspirtprom" acquired 250 million registered ordinary shares in the Bank from the current shareholders of PJSC "Tatfondbank" for RUB 10 per share in the total amount of RUB 2,500,000 thousand (17.33% of the share capital). JSC "Tatspirtprom" is 100%-owned by JSC "Sviazininvestneftekhim", the sole shareholder of which is the Republic of Tatarstan. On 22 July and 29 July 2016, the Bank's shareholders used the full amount of funds received from the sale of the shares to increase the Bank's tier 1 capital under the agreement to increase net assets.

On 29 July 2016, an Extraordinary General Meeting of the Bank's shareholders approved the increase in the share capital through an additional issue and public placement of 300 million registered ordinary shares with a total nominal value of RUB 3,000,000 thousand. The terms of the placement and payment, as well as the procedure for concluding agreements during the placement are determined by a decision on the additional issue. On 8 September 2016, the Bank's Board of Directors approved the respective decision on the additional issue of registered ordinary uncertificated shares and the Prospectus.

PJSC “Tatfondbank”

Consolidated financial statements

*for the year ended 31 December 2014
with independent auditors' report*

Contents

Independent auditors’ report

Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to the consolidated financial statements

1	Introduction.....	5
2	Operating environment of the Group	6
3	Basis of preparation.....	7
4	Summary of accounting policies	8
5	Adjustments in the financial statements	22
6	Cash and cash equivalents	23
7	Due from banks	24
8	Financial instruments at fair value through profit or loss.....	24
9	Derivative financial instruments	27
10	Securities lent.....	28
11	Loans to customers	28
12	Investments available for sale	35
13	Investment property.....	36
14	Property and equipment	37
15	Other assets	39
16	Due to banks	40
17	Customer accounts.....	40
18	Debt securities issued	41
19	Eurobonds issued.....	42
20	Other borrowings.....	43
21	Other liabilities	43
22	Subordinated borrowings and Eurobonds	43
23	Change in non-controlling interest.....	44
24	Share capital	44
25	Interest income and expense	46
26	Fee and commission income and expense	46
27	Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	47
28	Allowance for impairment	47
29	Administrative and other operating expenses.....	47
30	Income tax expense	47
31	Segment analysis	49
32	Financial risk management.....	52
33	Capital management	67
34	Commitments and contingencies.....	68
35	Fair value measurement.....	71
36	Offsetting of financial instruments.....	76
37	Related party transactions.....	77
38	Subsidiaries	81
39	Events after the reporting date	86

Independent auditors' report

To the Shareholders and Board of Directors of
PJSC "Tatfondbank"

We have audited the accompanying consolidated financial statements of PJSC "Tatfondbank" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PJSC "Tatfondbank" and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to the fact that, as disclosed in Note 5 to the consolidated financial statements, the consolidated financial statements of PJSC "Tatfondbank" for the year ended 31 December 2014 were revised on 14 October 2016. Our opinion is not qualified in respect of this matter.



14 October 2016

Moscow, Russia

PJSC "Tatfondbank"
Consolidated statement of financial position
as at 31 December 2014
(in thousands of Russian rubles)

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	6	16,412,809	8,826,053
Mandatory cash balances with the Central Bank of the Russian Federation	7	1,067,447	871,951
Due from banks	7	1,189,970	1,037,614
Financial instruments at fair value through profit or loss:			
- Held by the Group	8	24,382,225	12,396,426
- Pledged as collateral under sale and repurchase agreements	8	7,931,456	4,326,273
Securities lent	10	1,477,238	—
Loans to customers	11	96,723,817	82,212,683
Investments available for sale:			
- Held by the Group	12	4,912,886	4,940,894
- Pledged as collateral under sale and repurchase agreements	12	—	1,863,775
Investment property	13	1,492,917	1,144,603
Property and equipment	14	1,315,168	1,328,315
Deferred tax asset	30	286,295	443,800
Other assets	15	3,275,973	2,811,334
Total assets		160,468,201	122,203,721
Liabilities			
Due to the Central Bank of the Russian Federation	16	13,004,610	6,505,580
Due to banks	16	11,938,756	5,796,153
Customer accounts	17	90,160,326	66,772,316
Debt securities issued	18	20,400,059	26,178,698
Eurobonds issued	19	3,820,534	—
Other borrowings	20	1,195,682	—
Other liabilities	21	531,670	675,033
Deferred tax liabilities	30	814,451	892,296
Subordinated borrowings and Eurobonds	22	6,600,369	3,099,996
Obligation to repurchase interest in a subsidiary		114,153	114,153
Non-controlling interests	23	1,627,379	79,866
Total liabilities		150,207,989	110,114,091
Equity			
Share capital	24	13,111,618	13,111,618
Revaluation reserve for investments available for sale		(182,700)	78,582
Revaluation reserve for buildings		196,208	200,501
Accumulated deficit		(3,029,524)	(1,467,592)
Total equity attributable to the equity holders of the Bank		10,095,602	11,923,109
Non-controlling interests	23	164,610	166,521
Total equity		10,260,212	12,089,630
Total liabilities and equity		160,468,201	122,203,721

Approved for issue and signed on behalf of the Management Board on 14 October 2016

R.I. Nasyrov
First Deputy Chairman of the
Management Board



S.G. Korchagina
Chief Accountant

PJSC "Tatfondbank"
Consolidated statement of comprehensive income
for the year ended 31 December 2014
(in thousands of Russian rubles)

	Notes	2014	2013
Interest income	25	14,226,351	11,008,265
Interest expense	25	(10,536,543)	(8,928,765)
Net interest income		3,689,808	2,079,500
Fee and commission income	26	1,913,913	1,663,486
Fee and commission expense	26	(321,673)	(277,211)
Net fee and commission income		1,592,240	1,386,275
Net gains from financial instruments at fair value through profit or loss		50,164	557,848
(Losses) less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	27	(512,820)	(168,197)
Net (losses)/gains from disposal of investments available for sale		(18,918)	913,643
Net gains from investment property	13	414,513	1,409,443
Other operating income		96,104	302,075
Allowance for impairment	28	(3,411,822)	(2,688,494)
Expenses on assignment of claims		(367,462)	(180,275)
Administrative and other operating expenses	29	(3,821,664)	(3,466,103)
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company and mutual funds	23	138,161	13,120
Expenses from the placement of financial instruments at below-market interest rates	8	(873,044)	–
Financial result from the sale of subsidiaries	38	1,562,998	–
(Loss) profit before tax		(1,461,742)	158,835
Income tax benefit	30	5,305	51,165
(Loss) profit for the period		(1,456,437)	210,000
Attributable to:			
- Equity holders of the Bank		(1,454,526)	235,594
- Non-controlling interests	23	(1,911)	(25,594)
Other comprehensive loss			
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</i>			
Investments available for sale, including:			
- Net change in fair value		(134,361)	615,773
- Net change in fair value transferred to profit or loss		(192,243)	(689,114)
Income tax effect		65,322	14,668
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(261,282)	(58,673)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation of buildings		–	126,320
Income tax effect		–	(25,264)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		–	101,056
Other comprehensive (loss) income		(261,282)	42,383
Total comprehensive (loss) profit		(1,717,719)	252,383
Attributable to:			
- Equity holders of the Bank		(1,715,808)	277,977
- Non-controlling interests		(1,911)	(25,594)

PJSC "Tatfondbank"
Consolidated statement of changes in equity
for the year ended 31 December 2014
(in thousands of Russian rubles)

	Attributable to equity holders of the Bank						
	Share capital	Revaluation reserve for investments available for sale	Revaluation reserve for buildings	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	9,111,618	137,255	103,739	(1,707,480)	7,645,132	–	7,645,132
Profit before other comprehensive income	–	–	–	235,594	235,594	(25,594)	210,000
Other comprehensive income							
Net change in fair value of investments available for sale, net of income tax	–	492,618	–	–	492,618	–	492,618
Disposal of investments available for sale, net of income tax	–	(551,291)	–	–	(551,291)	–	(551,291)
Revaluation of property and equipment, net of income tax	–	–	101,056	–	101,056	–	101,056
Total other comprehensive income, net of income tax	–	(58,673)	101,056	–	42,383	–	42,383
Total comprehensive income	–	(58,673)	101,056	235,594	277,977	(25,594)	252,383
Share capital contribution	4,000,000	–	–	–	4,000,000	–	4,000,000
Transfer of revaluation of buildings	–	–	(4,294)	4,294	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	192,115	192,115
Balance at 31 December 2013	13,111,618	78,582	200,501	(1,467,592)	11,923,109	166,521	12,089,630
Loss before other comprehensive loss	–	–	–	(1,454,526)	(1,454,526)	(1,911)	(1,456,437)
Other comprehensive loss							
Net change in fair value of investments available for sale, net of income tax	–	(107,488)	–	–	(107,488)	–	(107,488)
Disposal of investments available for sale, net of income tax	–	(153,794)	–	–	(153,794)	–	(153,794)
Total other comprehensive loss, net of income tax	–	(261,282)	–	–	(261,282)	–	(261,282)
Total comprehensive loss	–	(261,282)	–	(1,454,526)	(1,715,808)	(1,911)	(1,717,719)
Contributions from Shareholders, net of income tax	–	–	–	704,022	704,022	–	704,022
Transfer of revaluation of buildings	–	–	(4,293)	4,293	–	–	–
Disposal of non-controlling interest in a subsidiary	–	–	–	25,080	25,080	–	25,080
Sale of interest in a subsidiary	–	–	–	(840,801)	(840,801)	–	(840,801)
Balance at 31 December 2014	13,111,618	(182,700)	196,208	(3,029,524)	10,095,602	164,610	10,260,212

The accompanying notes are an integral part of these consolidated financial statements.

PJSC "Tatfondbank"
Consolidated statement of cash flows
for the year ended 31 December 2014
(in thousands of Russian rubles)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		13,511,163	10,582,032
Interest paid, excluding interest paid on debt securities issued		(7,253,614)	(6,712,397)
Fees and commissions received		1,920,025	1,660,411
Fees and commissions paid		(318,341)	(315,876)
Net (payments) receipts from financial instruments at fair value through profit or loss		(2,359,334)	214,654
Net receipts from foreign currencies		1,252,973	6,983
Net receipts from derivative financial instruments		951,216	45,256
Net receipts (payments) from precious metals		16,446	(53,530)
Other operating receipts		74,606	103,208
Staff costs		(1,877,927)	(1,702,620)
Other administrative and operating payments		(2,221,206)	(1,672,938)
Income tax paid		(234,780)	(78,894)
Cash flows from operating activities before changes in operating assets and liabilities		3,461,227	2,076,289
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory cash balances with the Central Bank of the Russian Federation		(195,496)	24,900
Net (increase) decrease in due from banks		(1,045,784)	54,325
Net increase in financial instruments at fair value through profit or loss		(14,081,499)	(6,822,028)
Net increase in loans to customers		(15,340,674)	(15,518,914)
Net increase in other assets		(207,275)	(420,963)
Net increase (decrease) in due to the Central Bank of the Russian Federation		6,481,313	(731,349)
Net increase in due to banks		5,867,329	560,194
Net increase in customer accounts		22,185,744	7,642,235
Net (decrease) increase in promissory notes issued		(7,052,385)	3,518,755
Net increase in other liabilities		93,003	62,445
Net cash (used in) from operating activities		165,503	(9,554,111)
Cash flows from investing activities			
Acquisition of investments available for sale		(1,462,871)	(3,035,296)
Proceeds from sale of investments available for sale		2,868,827	3,121,731
Acquisition of investment property		(133,277)	–
Proceeds from sale of investment property		34,473	29,928
Cash acquired through business combination		–	263,866
Proceeds from sale of a subsidiary		19,756	4,981,442
Purchase of consolidated CEMF's units		–	(693,662)
Purchase of property and equipment	14	(175,707)	(372,667)
Proceeds from sale of property and equipment		13,641	35,227
Dividends received		329	104,477
Net cash from investing activities		1,165,171	4,435,046
Cash flows from financing activities			
Proceeds from issue of bonds		12,362,833	11,409,206
Repayment/repurchase of bonds		(11,472,772)	(8,016,196)
Proceeds from sale of deposit certificates		54,500	–
Repayment of deposit certificates		(54,500)	(30,000)
Proceeds from issue of Eurobonds		2,515,023	–
Proceeds from sale of interest in a subsidiary		282,270	–
Proceeds from subordinated borrowings and Eurobonds		2,166,612	1,000,000
Repayment of subordinated borrowings		–	(2,400,000)
Interest paid on debt securities issued		(2,050,460)	(1,786,548)
Contributions from Shareholders		880,028	–
Issue of ordinary shares		–	4,000,000
Net cash from financing activities		4,683,534	4,176,462
Effect of exchange rate changes on cash and cash equivalents		1,572,548	(166,792)
Net increase (decrease) in cash and cash equivalents		7,586,756	(1,109,395)
Cash and cash equivalents at the beginning of the reporting period	6	8,826,053	9,935,448
Cash and cash equivalents at the end of the reporting period	6	16,412,809	8,826,053

The accompanying notes are an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements of Public Joint Stock Company “Tatfondbank” (the “Bank”) and its subsidiaries (together referred to as the “Group”) are prepared as at and for the year ended 31 December 2014.

The Bank is an open joint stock company incorporated in accordance with Russian regulations in the Russian Federation (“RF”).

The Bank accepts deposits from the public and extends credits, transfers payments in the Russian Federation, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (CBR) since 1994. The Bank participates in the State deposit insurance scheme.

The Bank is licensed by the Federal Financial Markets Service of the Russian Federation for trading in securities.

As at 31 December 2014, the Bank has 5 branches, 38 operational offices, 64 additional offices and 1 operational cash desk in the Russian Federation (31 December 2013: 6 branches, 36 operational offices, 74 additional offices and 1 operational cash desk).

The Bank’s registered address is Chernyshevskogo street, 43/2, Kazan, Republic of Tatarstan (RT), Russian Federation, 420111.

As at 31 December 2014 and 2013, the corporate subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			2014	2013
CJSC TFB Aktiv	Securities trading and financial intermediation	RF, Kazan	100.00%	100.00%
IC TFB-Finance LLC	Asset management	RF, Kazan	68.00%	100.00%
PJSC NCB “Radiotechbank”	Banking	RF, Nizhny Novgorod	29.85%	29.85%
TFB-Zaim LLC	Financial intermediation	RF, Kazan	—	90.00%
TFB Finance Limited	Eurobond issue	Ireland, Dublin	—	—

On 28 June 2013, the Bank received offers from equity holders of PJSC NCB “Radiotechbank” to purchase shares of PJSC NCB “Radiotechbank” over a period of three years and obtain controlling interest. Besides, the Bank has certain powers on the Board of Directors of PJSC NCB “Radiotechbank”. As a result, as at 31 December 2014 and 2013, PJSC NCB “Radiotechbank” has been included in these consolidated financial statements as a fully consolidated subsidiary (Note 38).

On 30 June 2014, the Group sold to an equity holder with significant influence a 32% interest in IC TFB-Finance LLC, its subsidiary (Note 38). The sale gave rise to a non-controlling interest in the amount of RUB 1,240,194 thousand as at 31 December 2014 (Note 23).

On 31 December 2014, the Group lost control over TFB-Zaim LLC as a result of the sale of 90% in the charter capital to an unrelated third party. As a result of this disposal, the Group recognized a gain of RUB 1,562,998 thousand in other income (Note 38).

TFB Finance Limited is a structured entity established to raise borrowings in the international securities markets. The Group consolidates TFB Finance Limited using the full consolidation method.

The Group holds controlling stakes in certain closed-end mutual investment funds. These funds are unincorporated subsidiaries. The assets of the funds comprise investments available for sale, loans, investment property and other assets. Assets held by these funds are included in these consolidated financial statements.

1 Introduction (continued)

As at 31 December 2014 and 2013, the unincorporated subsidiaries of the Bank comprise:

Entity	Type of activity	Place of registration	Percentage holding	
			2014	2013
Closed-end real estate mutual investment fund "TFB-Activ"	Investment	RF, Kazan	100.00%	100.00%
Closed-end combined mutual fund "TFB-Dalnovidny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end bank loan mutual fund "Kreditnye Investitsii"	Investment	RF, Kazan	100.00%	100.00%
Closed-end private equity mutual fund "Professional"	Investment	RF, Kazan	100.00%	100.00%
Closed-end real estate mutual investment fund "Nash Novy Dom"	Investment	RF, Kazan	100.00%	100.00%
Closed-end real estate mutual investment fund "Priozerny"	Investment	RF, Kazan	100.00%	100.00%
Closed-end real estate mutual investment fund "TFB-Investitsionny"	Investment	RF, Kazan	93.68%	92.48%
Closed-end bank loan mutual fund "Tekhnologii Investitsiy" (formerly Closed-end bank loan mutual fund "Ak Bars Creditny Capital")	Investment	RF, Kazan	62.76%	100.00%

In the first half of 2014, the Group increased its share of investments in the units of Closed-end real estate mutual investment fund "TFB-Investitsionny" from 92.48% to 93.68%. As a result, as at 31 December 2014, the non-controlling interest amounted to RUB 70,034 thousand (Note 23).

In the second half of 2014, the Group decreased its share of investments in the units of Closed-end bank loan mutual fund "Tekhnologii Investitsiy" from 100% to 92.29%. As a result, as at 31 December 2014, the non-controlling interest amounted to RUB 317,151 thousand (Note 23). The Group sold a 32% interest in its subsidiary, IC TFB-Finance LLC, and, as a result, the Group's interest in Closed-end bank loan mutual fund "Tekhnologii Investitsiy" as at 31 December 2014 was 62.76%.

2 Operating environment of the Group

Operating environment of the Group. The Group operates primarily in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. This resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Group's financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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

Deteriorating operating conditions for borrowers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of loan impairment allowance is based on management's assessment of such loans at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs to obtain and sell the collateral. The Russian market for many types of collateral, especially real estate, has been affected by the volatility in global financial markets and general economic downturn resulting in a decreased level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value used in estimating impairment allowances.

2 Operating environment of the Group (continued)

The fair value of investments quoted in active markets is based on current bid prices (financial assets) or ask prices (financial liabilities). As a result of the recent volatility in financial markets, for some financial instruments there are no more regular transactions on an arm's length basis, therefore, management believes that some financial instruments are no longer quoted in an active market. If there is no active market for financial instruments, the Group determines fair value using different valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The objective of the valuation technique is to determine what the transaction price would have been on the valuation date in an arm's length exchange motivated by normal business considerations. Valuation models reflect current market conditions at the valuation date which may not be representative of market conditions either before or after the valuation date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets and economic uncertainties. Management believes it is taking all appropriate measures to support the sustainability and growth of business in the current circumstances.

3 Basis of preparation

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that buildings are stated at revalued amounts, and financial instruments at fair value through profit or loss, certain investments available for sale and investment property are stated at fair values.

Functional and presentation currency. The functional currency of the Bank and its subsidiaries is the Russian ruble, as, being the national currency of the Russian Federation, it best reflects the nature of most operations and related conditions, having an impact on the Group's activities. The functional currency of TFB Finance Limited is the euro, and its presentation currency is the US dollar. These consolidated financial statements are presented in Russian rubles (RUB), rounded to the nearest thousand.

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 for making judgments 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 may ultimately differ from these estimates.

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

Management prepared these consolidated financial statements on a going concern basis. In making this judgment, management considered the financial position, current intentions, profitability of operations, access to financial resources and analyzed the impact of the financial crisis on future operations of the Group. Refer to Note 32 for analysis of the liquidity position as at 31 December 2014.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRSs that have a significant effect on the amounts recognized in these consolidated financial statements are described in the following notes:

- ▶ Note 11 "Loans to customers" in respect of loan impairment allowance;
- ▶ Note 12 "Investments available for sale" in respect of valuation of financial instruments.

4 Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, with the exception of changes in accounting policies as explained at the end of this note.

Subsidiaries. Subsidiaries, which are those entities in which the Group owns more than half of the voting shares or which are controlled by the Group on other grounds, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Investments in mutual funds. The Group has controlling stakes in closed-end mutual investment funds not constituting businesses. The assets of the funds mainly comprise investments available for sale, loans, investment property and other assets. The Group consolidates mutual investment funds controlled by the Group.

Non-controlling interest of mutual funds. Non-controlling interest of mutual funds represents interests of mutual funds not attributable, directly or indirectly, to the Bank.

Non-controlling interest of mutual funds is presented in the consolidated statement of financial position as a liability, as the Group has an obligation to repurchase this interest in certain cases. In its consolidated financial statements the Group recognizes acquisitions and disposals of interest attributable to non-controlling shareholders of subsidiaries as transactions with creditors. Results from transactions with non-controlling interest of mutual funds and changes in the non-controlling interest resulting from changes in net assets of the funds are recognized as income or expense in profit (or loss) for the period.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate effective at that date.

Gains or losses from transactions with monetary assets and liabilities denominated in a foreign currency are the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated to the functional currency at the exchange rate effective at the end of the reporting period. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated to the functional currency at the exchange rate effective at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency at the exchange rates effective at the dates of fair value determination. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

As at 31 December 2014 the principal exchange rates used for translating foreign currency balances were RUB 56.2584 to USD 1 and RUB 68.3427 to EUR 1 (31 December 2013: RUB 32.7292 to USD 1 and RUB 44.9699 to EUR 1).

Hyperinflation accounting. The Russian economy ceased to be hyperinflationary starting from 1 January 2003 and, accordingly, no inflation adjustments have been made for the periods subsequent to this date.

4 Summary of accounting policies (continued)

Classification of financial assets and liabilities. Financial assets and liabilities are classified as follows:

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

- ▶ Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- ▶ Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- ▶ Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or
- ▶ Upon initial recognition, designated as at fair value through profit or loss.

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

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

All derivative financial instruments held for trading that are in a net receivable position (positive fair value) as well as options purchased are reported as assets. All derivative financial instruments held for trading that are in a net payable position (negative fair value) as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- ▶ Intends to sell immediately or in the near term;
- ▶ Upon initial recognition designates as at fair value through profit or loss;
- ▶ Upon initial recognition designates as available-for-sale; or
- ▶ May not recover substantially all of its initial investment, other than because of credit deterioration.

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- ▶ The Group upon initial recognition designates as at fair value through profit or loss;
- ▶ The Group designates as available-for-sale; or
- ▶ Meet the definition of loans and receivables.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of at fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

4 Summary of accounting policies (continued)

Subsequent to initial recognition, financial assets, including derivatives that are classified as assets, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- ▶ Loans and receivables which are measured at amortized cost using the effective interest method;
- ▶ Held-to-maturity investments that are measured at amortized cost using the effective interest method;
- ▶ Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such instruments are recorded in the consolidated financial statements at historical cost.

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 amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principle. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration paid or received.

If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- ▶ If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., Level 1 inputs) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as gain or loss;
- ▶ In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the deferred difference as gain or loss only when the inputs become observable, or the instrument is derecognized.

4 Summary of accounting policies (continued)

Assets and long positions are measured at bid price; liabilities and short positions are measured at ask price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group's entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent remeasurement. Gains or losses arising from a change in the fair value of a financial asset or liability are recognized as follows:

- ▶ A gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- ▶ A gain or loss on a financial asset available for sale is recognized as other comprehensive income in equity (except for impairment losses and foreign currency gains and losses on debt financial instruments available for sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest income in relation to a financial asset available for sale is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, or through the amortization process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

4 Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements. Securities sold under sale and repurchase ("repo") agreements are treated as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances of banks or current accounts and deposits of customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a liability held for trading and measured at fair value.

Derivative financial instruments. Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and recorded in the consolidated financial statements as a separate derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in profit or loss for the period. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group enters into derivative instruments for risk hedging purposes, the Group does not have a formal hedging strategy that would qualify for hedge accounting.

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

Precious metals. Precious metals are stated at lower of net realizable value and cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula.

Impairment of financial assets carried at amortized cost. Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables to assess impairment on a regular basis. 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 have occurred after the initial recognition of the loan or receivable and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. Objective evidence that financial assets are impaired may include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or an issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

4 Summary of accounting policies (continued)

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related impairment allowance) when management determines that the loan is uncollectable and when all efforts to collect the loan have been exhausted.

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

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Impairment of investments available for sale. Impairment losses on investments available for sale are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Changes in impairment provisions attributable to time value are recorded as a component of interest income.

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

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

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks, and highly liquid financial assets with original maturities of less than one month, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the CBR is not considered to be cash or a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

4 Summary of accounting policies (continued)

Amounts due from banks are recorded when the Group advances funds to counterparty banks with no intention of trading in the resulting unquoted non-derivative instruments. Amounts due from banks are due on fixed or determinable dates and are carried at amortized cost.

Due to banks. Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortized cost.

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

Debt securities issued. Debt securities issued include promissory notes, bonds and credit linked notes issued by the Group. Debt securities are stated at amortized cost.

Eurobonds issued. Eurobonds issued represent issued debt securities offered on foreign markets. Eurobonds are carried at amortized cost.

Credit related commitments. In the normal course of business, the Group enters into credit-related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

Financial guarantee liabilities and provisions for other credit-related commitments are included within other liabilities.

Loan commitments are not recognized in the consolidated financial statements, except for the following:

- ▶ Loan commitments that the Group designates as financial liabilities at fair value through profit or loss;
- ▶ If the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- ▶ Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- ▶ Commitments to issue loans at a below-market interest rate.

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss.

When the use of an investment property changes so that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent recording in the consolidated financial statements.

Property and equipment. Items of property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, except for buildings that are recorded at revalued amounts, as described below.

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.

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of buildings subject to revaluation. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income, in which case it is recognized in other comprehensive income.

4 Summary of accounting policies (continued)

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

Buildings	50 years
Equipment	5 years

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

Assets classified as held for sale. Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Assets held for sale or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment of non-financial assets. Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing the 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 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 recognized 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 profit or loss and are only reversed if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss 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 amortization, if no impairment loss had been recognized in the consolidated financial statements. An impairment loss in respect of goodwill is not reversed.

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

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

Share capital. Ordinary shares and preference shares, which are non-redeemable and for which dividends are declared at the shareholders' discretion, are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as share premium.

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized in the consolidated financial statements as a decrease in equity.

Dividends. Dividends in relation to ordinary or preference shares recognized in equity are reflected as an appropriation of retained earnings in the period in which they are declared. Any dividends declared after the reporting date but before the consolidated financial statements are authorized for issue are disclosed in Note 39 "Events after the reporting period". Profit distribution and other appropriations are made on the basis of statutory financial statements.

4 Summary of accounting policies (continued)

Income tax. Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income and expense recognition. Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan together with the related transaction costs are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received reduce the total lease expense over the term of the lease.

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

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

Investment Entities – amendments to IFRS 10, IFRS 12 and IAS 27

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendments are not relevant to the Group, since the Group does not qualify to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no material impact on the Group.

4 Summary of accounting policies (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Novation of Derivatives and Continuation of Hedge Accounting – amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are not relevant to the Group, since the Group has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Group's financial position or performance.

Standards issued but not yet effective

The standards that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

4 Summary of accounting policies (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items in the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after 1 July 2014. It is not expected that these amendments would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

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

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

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 and will be measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

4 Summary of accounting policies (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. These amendments will not have any impact on the Group's consolidated financial statements.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements to IFRS: 2010-2012 cycle

These improvements became effective on 1 July 2014 and did not have a material impact on the Group. They include:

IFRS 2 Share-based Payment

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

- ▶ A performance condition must contain a service condition;
- ▶ A performance target must be met while the counterparty is rendering service;
- ▶ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- ▶ A performance condition may be a market or non-market condition.

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

4 Summary of accounting policies (continued)

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

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

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

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

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements to IFRS: 2011-2013 cycle

These improvements became effective on 1 July 2014 and did not have a material impact on the Group. They include:

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of ‘Effective IFRSs’ – amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements. Since the Group is an existing IFRS preparer, this standard would not apply.

Annual improvements to IFRS: 2012-2014 cycle

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

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

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

4 Summary of accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods”. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase ‘and interim periods within those annual periods’, clarifying that these disclosures are not required in the condensed interim financial report. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting 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 for making judgments 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 may ultimately differ from these estimates.

Where the voting rights in an investee do not constitute a controlling stake, management assumes that the investor may control the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

4 Summary of accounting policies (continued)

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

Significant accounting judgments and estimates used in preparing these consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2013.

Management prepared these consolidated financial statements on a going concern basis. In making this judgment, management considered the financial position, current intentions, profitability of operations, access to financial resources and analyzed the impact of the financial crisis on future operations of the Group.

5 Adjustments in the financial statements

On 20 April 2015 the Group's management authorized and issued the Group's consolidated financial statements for the year ended 31 December 2014. Subsequently the Group's consolidated financial statements were revised and authorized for reissuance by the Group's management on 14 October 2016 as a result of the adjustments made to record the following transactions in the consolidated financial statements..

In October 2016, the Bank's management identified that income received from deposit forgiveness, which was stated within other operating income in the consolidated statement of comprehensive income in previous periods, must be stated within contributions from Shareholders in the consolidated statement of changes in equity, net of income tax.

Also, in October 2016, the Bank's management identified that changes in non-controlling interests in subsidiaries registered in the form of a limited liability company and mutual funds, stated within loss attributable to non-controlling interests, must be stated in a separate line of the consolidated statement of comprehensive income.

The effect of these restatements on the consolidated statement of comprehensive income for 2014 is presented below:

	As previously reported	Adjustments	Restated
Other operating income	976,132	(880,028)	96,104
Change in non-controlling interests in subsidiaries registered in the form of a limited liability company and mutual funds	—	138,161	138,161
Administrative and other operating expenses	(3,819,664)	(2,000)	(3,821,664)
Loss before tax	(717,875)	(743,867)	(1,461,742)
Income tax (expense)/benefit	(170,701)	176,006	5,305
Loss for the period	(888,576)	(567,861)	(1,456,437)
Attributable to:			
- Equity holders of the Bank	(750,504)	(704,022)	(1,454,526)
- Non-controlling interests	(138,072)	136,161	(1,911)

The effect of these restatements on the consolidated statement of changes in equity for 2014 is presented below:

	As previously reported	Adjustments	Restated
Loss before other comprehensive loss	(888,576)	(567,861)	(1,456,437)
Contributions from Shareholders	—	704,022	704,022
Sale of interest in a subsidiary	(842,712)	1,911	(840,801)

Proceeds from the sale of a subsidiary in 2014 were incorrectly stated within cash flows from financing activities in the consolidated statement of cash flows. As a result, the Group's management decided to state these proceeds within cash flows from investing activities in the consolidated statement of cash flows.

5 Adjustments in the financial statements (continued)

The total effect of these restatements on the consolidated statement of cash flows for 2014 is presented below:

	As previously reported	Adjustments	Restated
Net (payments) receipts from financial instruments at fair value through profit or loss	(2,361,334)	2,000	(2,359,334)
Other operating receipts	954,634	(880,028)	74,606
Other administrative and operating payments	(2,219,206)	(2,000)	(2,221,206)
Cash flows from operating activities before changes in operating assets and liabilities	4,341,255	(880,028)	3,461,227
Cash flows from operating activities after changes in operating assets and liabilities	1,045,531	(880,028)	165,503
Proceeds from sale of a subsidiary (within investing activities)	–	19,756	19,756
Net cash from investing activities	1,145,415	19,756	1,165,171
Proceeds from sale of a subsidiary (within financing activities)	19,756	(19,756)	–
Contributions from Shareholders	–	880,028	880,028
Net cash from financing activities	3,823,262	860,272	4,683,534

6 Cash and cash equivalents

	31 December 2014	31 December 2013
Cash on hand	5,500,838	3,628,637
Nostro accounts with the CBR	4,024,298	2,795,138
Nostro accounts and overnight deposits with other banks	3,269,278	622,798
Brokerage accounts	1,975,724	1,621,541
Short-term deposits with other banks	1,026,885	66,446
Purchase and resale agreements ("reverse repo")	545,623	–
Settlement accounts with trading systems	70,163	91,493
Total cash and cash equivalents	16,412,809	8,826,053

As at 31 December 2014, the Group has one counterparty whose balances individually exceed 10% of total cash and cash equivalents (31 December 2013: one counterparty). The total value of the counterparty's balances as at 31 December 2014 is RUB 1,678,339 thousand (31 December 2013: RUB 1,445,199 thousand).

Analysis by credit quality of correspondent accounts with other banks and short-term deposits with other banks is as follows:

	31 December 2014	31 December 2013
Nostro accounts and overnight deposits with other banks	3,269,278	622,798
- Large OECD banks	1,795,612	147,940
- Top 20 Russian banks	1,102,872	290,384
- Other Russian banks	366,349	181,786
- Banks located in the Republic of Tatarstan	4,445	2,688
Short-term deposits with other banks	1,026,885	66,446
- Large OECD banks	1,002,685	48,444
- Top 20 Russian banks	24,200	18,002
Total cash and cash equivalents held at other banks	4,296,163	689,244

7 Due from banks

Amounts due from credit institutions comprise:

	31 December 2014	31 December 2013
Deposits with other banks	1,189,970	1,037,614
Mandatory cash balances with the CBR	1,067,447	871,951
Total due from banks	2,257,417	1,909,565

As at 31 December 2014, the Group has three banks whose balances individually exceed 10% of the total amount due from banks (31 December 2013: one bank). The total value of balances due from these credit institutions as at 31 December 2014 is RUB 1,011,466 thousand (31 December 2013: RUB 884,221 thousand).

An interbank loan extended to PJSC "Timer Bank" (former JSCB BTA-Kazan (OJSC)) in the course of its financial restructuring accounts for 29.5% of the total amount due from banks. Since 27 May 2014, the Bank of Russia together with State Corporation "Deposit Insurance Agency" has been implementing bankruptcy prevention measures for JSCB BTA-Kazan (OJSC). The Bank was appointed as a turnaround manager upon a proposal by the government of the Republic of Tatarstan. On 29 May 2014, the Bank issued a loan in the amount of RUB 1.2 billion to PJSC "Timer Bank" maturing in 10 years and bearing an interest rate of 0.51% p.a. As at 31 December 2014, an expense of RUB 873,044 thousand from the placement of financial instruments at below-market interest rates was recorded for this transaction in the statement of comprehensive income.

Credit institutions are required to maintain an obligatory reserve with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by the credit institution. Russian law restricts the withdrawability of such reserves by the Bank.

Analysis of amounts due from banks by credit quality is as follows:

	31 December 2014	31 December 2013
Deposits with other banks		
- Banks located in the Republic of Tatarstan	707,110	1,000
- Other Russian banks	434,808	55,022
- Top 20 Russian banks	48,052	975,046
- Large OECD banks	—	6,546
Mandatory cash balances with the CBR	1,067,447	871,951
Total due from banks	2,257,417	1,909,565

8 Financial instruments at fair value through profit or loss

	31 December 2014	31 December 2013
Financial instruments held for trading	23,651,701	12,090,114
Financial instruments at fair value through profit or loss	8,661,980	4,632,585
Total financial instruments at fair value through profit or loss	32,313,681	16,722,699

8 Financial instruments at fair value through profit or loss (continued)

Financial instruments held for trading

	31 December 2014	31 December 2013
Held by the Group		
Corporate bonds	8,787,269	4,982,190
Corporate Eurobonds	5,891,003	1,443,230
Russian Government Federal Bonds (OFZ)	1,037,417	1,232,254
Total debt securities	15,715,689	7,657,674
Corporate shares	4,556	106,167
Total equity securities	4,556	106,167
Total financial instruments held for trading and owned by the Group	15,720,245	7,763,841
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	7,931,456	3,735,781
Municipal bonds	–	421,067
Russian Government Federal Bonds (OFZ)	–	169,425
Total debt securities	7,931,456	4,326,273
Total financial instruments held for trading, pledged as collateral under sale and repurchase agreements	7,931,456	4,326,273
Total financial instruments held for trading	23,651,701	12,090,114

Financial instruments held for trading are represented by debt and equity securities.

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies and banks. As at 31 December 2014, these bonds have maturity dates from January 2015 to August 2018 (31 December 2013: from February 2014 to August 2018) and coupon rates from 6% to 15% p.a. (31 December 2013: from 2% to 14% p.a.).

Corporate Eurobonds are interest-bearing securities denominated in US dollars and issued by Russian companies and banks (31 December 2013: issued by Russian banks). As at 31 December 2014, these Eurobonds have maturity dates from March 2015 to May 2019 (31 December 2013: from March 2015 to May 2019) and coupon rates from 5% to 12% p.a. (31 December 2013: from 6% to 12% p.a.).

Russian Government Federal Bonds (OFZ) are government securities denominated in Russian rubles and issued by the Ministry of Finance of the Russian Federation. As at 31 December 2014, OFZ have maturity dates from June 2015 to February 2036 (31 December 2013: from March 2014 to February 2036) and coupon rates from 6% to 8% p.a. (31 December 2013: from 7% to 12% p.a.).

Municipal bonds, as at 31 December 2013, were represented by securities denominated in Russian rubles and issued by the Moscow Government. They matured in June 2014 and had a coupon rate of 12% p.a.

8 Financial instruments at fair value through profit or loss (continued)

Equity instruments are represented by shares of Russian companies and banks.

Financial instruments at fair value through profit or loss pledged as collateral under sale and repurchase agreements can be sold or repurchased by the counterparty in accordance with the contract or established practice. As at 31 December 2014, sale and repurchase agreements mature in January 2015 (31 December 2013: January 2014). Related liabilities are recognized in the consolidated statement of financial position in the line "Due to banks" (Note 16) in the amount of RUB 6,500,966 thousand (31 December 2013: "Due to banks" in the amount of RUB 3,498,421 thousand).

Financial instruments at fair value through profit or loss

	31 December 2014	31 December 2013
Equity securities		
Mutual fund units	8,661,980	4,632,585
Total equity securities	8,661,980	4,632,585
Total financial instruments at fair value through profit or loss	8,661,980	4,632,585

Financial instruments at fair value through profit or loss are represented by mutual fund units.

Analysis by credit quality of debt securities at fair value through profit or loss outstanding as at 31 December 2014 is as follows:

	OFZ	Corporate bonds	Corporate Eurobonds	Total
Held by the Group				
Other Russian companies	–	6,725,891	531,044	7,256,935
Top 20 Russian banks	–	28,551	5,310,292	5,338,843
Other Russian banks	–	2,032,827	49,667	2,082,494
Russian Government	1,037,417	–	–	1,037,417
Total debt securities at fair value through profit or loss held by the Group	1,037,417	8,787,269	5,891,003	15,715,689
Pledged as collateral under sale and repurchase agreements				
Other Russian banks	–	7,178,765	–	7,178,765
Top 20 Russian banks	–	410,750	–	410,750
Other Russian companies	–	341,941	–	341,941
Total debt securities included in financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	–	7,931,456	–	7,931,456
Total debt securities included in financial instruments at fair value through profit or loss	1,037,417	16,718,725	5,891,003	23,647,145

8 Financial instruments at fair value through profit or loss (continued)

Analysis by credit quality of debt securities at fair value through profit or loss outstanding as at 31 December 2013 is as follows:

	OFZ	Municipal bonds	Corporate bonds	Corporate Eurobonds	Total
Held by the Group					
Other Russian companies	—	—	3,755,342	—	3,755,342
Top 20 Russian banks	—	—	84,734	1,410,490	1,495,224
Russian Government	1,232,254	—	—	—	1,232,254
Other Russian banks	—	—	1,142,114	32,740	1,174,854
Total debt securities at fair value through profit or loss held by the Group	1,232,254	—	4,982,190	1,443,230	7,657,674
Pledged as collateral under sale and repurchase agreements					
Other Russian banks	—	—	2,251,123	—	2,251,123
Top 20 Russian banks	—	—	868,645	—	868,645
Other Russian companies	—	—	616,013	—	616,013
Russian municipalities	—	421,067	—	—	421,067
Russian Government	169,425	—	—	—	169,425
Total debt securities included in financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	169,425	421,067	3,735,781	—	4,326,273
Total debt securities included in financial instruments at fair value through profit or loss	1,401,679	421,067	8,717,971	1,443,230	11,983,947

9 Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments recorded as other assets (Note 15) or other liabilities (Note 21) in the financial statements, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2014			31 December 2013		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Precious metals contracts						
Precious metals forwards	221,895	7,758	(32)	160,549	111	(1,226)
Foreign exchange contracts						
Foreign exchange forwards	4,538,900	1,355	(7,860)	3,822,541	2,017	(1,694)
Securities / stock index contracts						
Securities forwards	—	—	—	446,420	7,777	(839)
Securities / stock index futures	—	—	—	607,645	17,239	(732)
Foreign exchange futures	81,899	216	(6,623)	—	—	—
Total derivative assets/liabilities	4,842,694	9,329	(14,515)	5,037,155	27,144	(4,491)

9 Derivative financial instruments (continued)

As at 31 December 2014 and 2013, the Group had positions in the following types of derivatives:

Forwards and futures

Forwards and futures are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

10 Securities lent

On 4 June 2014, the Group entered into an agreement on the lending of units in Closed-end rental mutual fund "TFB-Rentnyi Investitsionny Fond" with a third party. Under the agreement with the counterparty, the loan is to be repaid until 31 March 2015. As at 31 December 2014, the fair value of the extended loan was RUB 1,477,238 thousand.

11 Loans to customers

	31 December 2014	31 December 2013
<i>Loans to corporate entities</i>	<i>85,795,650</i>	<i>69,359,721</i>
Corporate loans	75,769,139	59,856,728
Loans to small and medium enterprises (SME)	8,422,785	9,144,181
Purchase and resale agreements ("reverse repo")	1,603,726	358,812
<i>Loans to individuals</i>	<i>25,826,055</i>	<i>25,918,440</i>
Consumer loans	17,172,460	17,834,543
Mortgage loans	5,980,401	5,199,438
Car loans	2,673,194	2,884,459
Total loans to customers, gross	111,621,705	95,278,161
Allowance for loan impairment	(14,897,888)	(13,065,478)
Total loans to customers, net	96,723,817	82,212,683

Corporate entities are classified as SME based on their revenues and the number of employees. As at 31 December 2014, loans to customers in the total amount of up to RUB 200,000 thousand are usually loans to SME (31 December 2013: RUB 200,000 thousand).

As at 31 December 2014, loans to customers in the amount of RUB 1,603,726 thousand (31 December 2013: RUB 358,812 thousand) were effectively collateralized by securities purchased under a reverse repurchase agreement, with the fair value of RUB 1,678,244 thousand (31 December 2013: RUB 421,607 thousand). The Group may repledge the securities purchased under reverse repurchase agreements but is obliged to return the securities. Reverse repurchase agreements mature in January 2015 (31 December 2013: maturity in January 2014).

In 2014, movements in the allowance for loan impairment were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2014	9,496,439	1,303,617	15,803	1,984,222	145,116	120,281	13,065,478
Allowances for impairment (Note 28)	1,240,519	467,617	70,157	1,552,913	111,983	86,963	3,530,152
Loans written off as uncollectible	—	(7,191)	—	(45,023)	(4,627)	(6,099)	(62,940)
Effect of disposal of a subsidiary	(843,448)	(406,613)	—	(368,864)	(13,714)	(2,163)	(1,634,802)
Balance at 31 December 2014	9,893,510	1,357,430	85,960	3,123,248	238,758	198,982	14,897,888

11 Loans to customers (continued)

In 2013, movements in the allowance for loan impairment were as follows:

	Corporate loans	SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2013	8,554,266	692,900	–	899,380	76,757	70,899	10,294,202
Allowances for impairment (Note 28)	926,188	586,675	15,803	1,054,751	61,175	48,998	2,693,590
Loans written off as uncollectible	–	(20,806)	–	(4,284)	(581)	–	(25,671)
Allowance from business combination	15,985	44,848	–	34,375	7,765	384	103,357
Balance at 31 December 2013	9,496,439	1,303,617	15,803	1,984,222	145,116	120,281	13,065,478

Analysis by credit quality of loans to corporate entities as at 31 December 2014 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Corporate loans				
<i>Loans not individually impaired, including:</i>	<i>48,640,379</i>	<i>(2,607,119)</i>	<i>46,033,260</i>	<i>5.4</i>
- Significant	46,396,935	(2,486,871)	43,910,064	5.4
- Not significant	2,243,444	(120,248)	2,123,196	5.4
<i>Impaired loans, including:</i>	<i>27,128,760</i>	<i>(7,286,391)</i>	<i>19,842,369</i>	<i>26.9</i>
- Not overdue	25,919,189	(6,607,877)	19,311,312	25.5
- Overdue less than 31 days	254,558	(135,046)	119,512	53.1
- Overdue 31 to 90 days	264,804	(264,505)	299	99.9
- Overdue 91 to 180 days	12,975	(12,975)	–	100.0
- Overdue 181 to 365 days	614,258	(203,012)	411,246	33.0
- Overdue more than 365 days	62,976	(62,976)	–	100.0
Total corporate loans	75,769,139	(9,893,510)	65,875,629	13.1
Loans to SME				
<i>Loans not individually impaired, including:</i>	<i>6,935,674</i>	<i>(371,751)</i>	<i>6,563,923</i>	<i>5.4</i>
- Not significant	6,935,674	(371,751)	6,563,923	5.4
<i>Impaired loans, including:</i>	<i>1,487,111</i>	<i>(985,679)</i>	<i>501,432</i>	<i>66.3</i>
- Not overdue	302,875	(132,189)	170,686	43.6
- Overdue less than 31 days	234,283	(52,884)	181,399	22.6
- Overdue 31 to 90 days	164,658	(131,726)	32,932	80.0
- Overdue 91 to 180 days	189,620	(151,696)	37,924	80.0
- Overdue 181 to 365 days	392,987	(314,496)	78,491	80.0
- Overdue more than 365 days	202,688	(202,688)	–	100.0
Total loans to SME	8,422,785	(1,357,430)	7,065,355	16.1
Purchase and resale agreements ("reverse repo")				
<i>Loans not individually impaired, including:</i>	<i>1,603,726</i>	<i>(85,960)</i>	<i>1,517,766</i>	<i>5.4</i>
- Significant	1,603,726	(85,960)	1,517,766	5.4
Total purchase and resale agreements ("reverse repo")	1,603,726	(85,960)	1,517,766	5.4
Total loans to corporate entities	85,795,650	(11,336,900)	74,458,750	13.2

11 Loans to customers (continued)

As at 31 December 2014, loans issued to corporate customers in the amount of RUB 111,933 thousand (less allowance for impairment in the amount of RUB 105,933 thousand) were overdue but not impaired (31 December 2013: nil).

Analysis by credit quality of loans to individuals as at 31 December 2014 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Consumer loans				
- Not overdue	13,543,532	(141,298)	13,402,234	1.0
- Overdue less than 31 days	456,532	(103,486)	353,046	22.7
- Overdue 31 to 90 days	315,368	(184,368)	131,000	58.5
- Overdue 91 to 180 days	382,949	(296,303)	86,646	77.4
- Overdue 181 to 365 days	853,638	(777,352)	76,286	91.1
- Overdue more than 365 days	1,620,441	(1,620,441)	–	100.0
Total consumer loans	17,172,460	(3,123,248)	14,049,212	18.2
Mortgage loans				
- Not overdue	5,661,584	(18,276)	5,643,308	0.3
- Overdue less than 31 days	65,456	(4,122)	61,334	6.3
- Overdue 31 to 90 days	28,039	(7,608)	20,431	27.1
- Overdue 91 to 180 days	85,847	(38,046)	47,801	44.3
- Overdue 181 to 365 days	46,320	(37,775)	8,545	81.6
- Overdue more than 365 days	93,155	(93,155)	–	100.0
Total mortgage loans	5,980,401	(198,982)	5,781,419	3.3
Car loans				
- Not overdue	2,332,988	(11,872)	2,321,116	0.5
- Overdue less than 31 days	73,718	(7,537)	66,181	10.2
- Overdue 31 to 90 days	32,658	(10,980)	21,678	33.6
- Overdue 91 to 180 days	31,966	(17,565)	14,401	54.9
- Overdue 181 to 365 days	62,342	(51,282)	11,060	82.3
- Overdue more than 365 days	139,522	(139,522)	–	100.0
Total car loans	2,673,194	(238,758)	2,434,436	8.9
Total loans to individuals	25,826,055	(3,560,988)	22,265,067	13.8

Management uses its experience and judgment to estimate the amount of impairment allowance for loans to corporate customers. Management estimates the impairment allowance for loans to corporate customers based on an analysis of future cash flows from impaired loans and based on its past loss experience on portfolios of loans for which no indications of impairment are identified on an individual basis. In determining the impairment allowance for loans for which no specific indications of impairment have been identified, management makes estimates of losses incurred using the past historic losses adjusted as necessary for the current economic environment.

When collateral is used to estimate the expected future cash flows, the estimated value of collateral is discounted by 20-30 percent to reflect current market conditions, and the expected foreclosure period is from 1 to 2 years.

Management estimates the impairment allowance for loans to individuals based on its past historical loss experience on these types of loans.

A significant assumption used by management in determining the allowance for impairment of loans to individuals is that loss migration rates are constant and can be estimated based on the historic loss pattern for the past 12 months.

11 Loans to customers (continued)

Changes in these estimates could affect the allowance for loan impairment. For example, to the extent that the net present value of the estimated cash flows changes by minus/plus one percent, the loan impairment allowance for loans to corporate entities as at 31 December 2014 would be RUB 744,588 thousand higher/lower and the loan impairment allowance for loans to individuals would be RUB 222,651 thousand higher/lower, respectively (31 December 2013: RUB 585,439 thousand and RUB 236,688 thousand, respectively).

Should actual loan payments be less than those estimated by management, the Group will be required to recognize additional loan impairment losses.

In 2014, the Group renegotiated loans to corporate entities and individuals that would otherwise be overdue or impaired. As at 31 December 2014, such loans amounted to RUB 6,358,772 thousand and RUB 795,144 thousand, respectively (31 December 2013: RUB 2,753,730 thousand and RUB 637,625 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximizing collection amounts. These loans are classified as not overdue.

Analysis by credit quality of loans to corporate entities as at 31 December 2013 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Corporate loans				
<i>Loans not individually impaired, including:</i>	42,518,335	(1,872,611)	40,645,724	4.4
- Significant	39,677,712	(1,747,503)	37,930,209	4.4
- Not significant	2,840,623	(125,108)	2,715,515	4.4
<i>Impaired loans, including:</i>	17,338,393	(7,623,828)	9,714,565	44.0
- Not overdue	16,022,247	(6,884,034)	9,138,213	43.0
- Overdue 91 to 180 days	359,931	(238,259)	121,672	66.2
- Overdue more than 365 days	956,215	(501,535)	454,680	52.5
Total corporate loans	59,856,728	(9,496,439)	50,360,289	15.9
Loans to SME				
<i>Loans not individually impaired, including:</i>	7,529,549	(331,620)	7,197,929	4.4
- Not significant	7,529,549	(331,620)	7,197,929	4.4
<i>Impaired loans, including:</i>	1,614,632	(971,997)	642,635	60.2
- Not overdue	648,324	(233,353)	414,971	36.0
- Overdue less than 31 days	234,001	(55,490)	178,511	23.7
- Overdue 31 to 90 days	76,812	(61,450)	15,362	80.0
- Overdue 91 to 180 days	87,956	(79,016)	8,940	89.8
- Overdue 181 to 365 days	133,712	(108,861)	24,851	81.4
- Overdue more than 365 days	433,827	(433,827)	–	100.0
Total loans to SME	9,144,181	(1,303,617)	7,840,564	14.3
Purchase and resale agreements ("reverse repo")				
<i>Loans not individually impaired, including:</i>	358,812	(15,803)	343,009	4.4
- Significant	358,812	(15,803)	343,009	4.4
Total purchase and resale agreements ("reverse repo")	358,812	(15,803)	343,009	4.4
Total loans to corporate entities	69,359,721	(10,815,859)	58,543,862	15.6

11 Loans to customers (continued)

Analysis by credit quality of loans to individuals as at 31 December 2013 is as follows:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans (%)
Consumer loans				
- Not overdue	15,158,721	(107,737)	15,050,984	0.7
- Overdue less than 31 days	416,201	(65,590)	350,611	15.8
- Overdue 31 to 90 days	360,816	(161,089)	199,727	44.6
- Overdue 91 to 180 days	394,979	(251,304)	143,675	63.6
- Overdue 181 to 365 days	644,038	(538,714)	105,324	83.6
- Overdue more than 365 days	859,788	(859,788)	–	100.0
Total consumer loans	17,834,543	(1,984,222)	15,850,321	11.1
Mortgage loans				
- Not overdue	5,015,091	(8,500)	5,006,591	0.2
- Overdue less than 31 days	6,813	(124)	6,689	1.8
- Overdue 31 to 90 days	39,908	(8,028)	31,880	20.1
- Overdue 91 to 180 days	45,354	(20,009)	25,345	44.1
- Overdue 181 to 365 days	54,761	(46,109)	8,652	84.2
- Overdue more than 365 days	37,511	(37,511)	–	100.0
Total mortgage loans	5,199,438	(120,281)	5,079,157	2.3
Car loans				
- Not overdue	2,635,614	(10,271)	2,625,343	0.4
- Overdue less than 31 days	54,777	(3,403)	51,374	6.2
- Overdue 31 to 90 days	49,981	(10,462)	39,519	20.9
- Overdue 91 to 180 days	23,027	(9,229)	13,798	40.1
- Overdue 181 to 365 days	36,502	(27,193)	9,309	74.5
- Overdue more than 365 days	84,558	(84,558)	–	100.0
Total car loans	2,884,459	(145,116)	2,739,343	5.0
Total loans to individuals	25,918,440	(2,249,619)	23,668,821	8.7

11 Loans to customers (continued)

The Group accepts deposits with the Bank, real estate, traded securities, motor vehicles, inventories, equipment and other assets as the main types of collateral. The structure of the gross loan portfolio by type of collateral as at 31 December 2014 is as follows:

	Corporate loans	Loans to SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Mortgage loans	Car loans	Total
Loans to corporate entities not individually impaired / not overdue loans to individuals	48,640,379	6,935,674	1,603,726	13,543,532	5,661,584	2,332,988	78,717,883
<i>Secured loans</i>	<i>19,261,973</i>	<i>4,718,798</i>	<i>1,603,726</i>	<i>72,954</i>	<i>5,661,584</i>	<i>2,332,786</i>	<i>33,651,821</i>
- Cash deposit	480,001	80,137	—	3,253	—	—	563,391
- Securities not traded in an active market	3,993,702	129,775	1,603,537	7,773	—	—	5,734,787
- Real estate	5,911,230	3,023,784	—	18,415	4,497,167	387	13,450,983
- Motor vehicles	128,750	324,044	—	3,608	600	2,311,128	2,768,130
- Equipment	530,659	335,762	—	381	—	—	866,802
- Biological assets	72,799	—	—	—	—	—	72,799
- Inventories	1,440,179	71,342	—	33,027	—	—	1,544,548
- Other assets	840,963	370,459	—	5,059	1,161,255	—	2,377,736
- Partially unsecured	5,863,690	383,495	189	1,438	2,562	21,271	6,272,645
<i>Unsecured loans</i>	<i>29,378,406</i>	<i>2,216,876</i>	<i>—</i>	<i>13,470,578</i>	<i>—</i>	<i>202</i>	<i>45,066,062</i>
Impaired loans to corporate entities / overdue loans to individuals	27,128,760	1,487,111	—	3,628,928	318,817	340,206	32,903,822
<i>Secured loans</i>	<i>14,814,168</i>	<i>729,832</i>	<i>—</i>	<i>18,907</i>	<i>318,817</i>	<i>340,058</i>	<i>16,221,782</i>
- Cash deposit	639,408	—	—	—	—	—	639,408
- Securities not traded in an active market	3,842,352	—	—	—	—	—	3,842,352
- Real estate	1,061,690	421,571	—	14,559	247,366	853	1,746,039
- Motor vehicles	2,831	73,748	—	462	—	333,527	410,568
- Equipment	46,323	82,961	—	—	—	—	129,284
- Biological assets	—	—	—	—	—	—	—
- Inventories	252,712	6,903	—	2,689	—	—	262,304
- Other assets	5,124,667	—	—	92	69,263	—	5,194,022
- Partially unsecured	3,844,185	144,649	—	1,105	2,188	5,678	3,997,805
<i>Unsecured loans</i>	<i>12,314,592</i>	<i>757,279</i>	<i>—</i>	<i>3,610,021</i>	<i>—</i>	<i>148</i>	<i>16,682,040</i>
Total loans to customers, gross	75,769,139	8,422,785	1,603,726	17,172,460	5,980,401	2,673,194	111,621,705

11 Loans to customers (continued)

The structure of the gross loan portfolio by type of collateral as at 31 December 2013 is as follows:

	Corporate loans	Loans to SME	Purchase and resale agreements ("reverse repo")	Consumer loans	Mortgage loans	Car loans	Total
Loans to corporate entities not individually impaired / not overdue loans to individuals	42,518,335	7,529,549	358,812	15,158,721	5,015,091	2,635,614	73,216,122
<i>Secured loans</i>	<i>19,108,804</i>	<i>4,228,240</i>	<i>358,812</i>	<i>80,949</i>	<i>5,015,091</i>	<i>2,635,614</i>	<i>31,427,510</i>
- Cash deposit	683,929	17	—	2,446	—	—	686,392
- Securities not traded in an active market	4,244,488	—	358,812	19,829	—	—	4,623,129
- Real estate	4,671,813	2,954,627	—	47,669	3,647,634	—	11,321,743
- Motor vehicles	129,182	330,351	—	1,327	—	2,629,371	3,090,231
- Equipment	575,237	160,947	—	787	—	—	736,971
- Biological assets	203,390	8,058	—	—	—	—	211,448
- Inventories	3,321,888	70,398	—	39	—	—	3,392,325
- Other assets	935,178	311,327	—	3,673	1,363,135	—	2,613,313
- Partially unsecured	4,343,699	392,515	—	5,179	4,322	6,243	4,751,958
<i>Unsecured loans</i>	<i>23,409,531</i>	<i>3,301,309</i>	<i>—</i>	<i>15,077,772</i>	<i>—</i>	<i>—</i>	<i>41,788,612</i>
Impaired loans to corporate entities / overdue loans to individuals	17,338,393	1,614,632	—	2,675,822	184,347	248,845	22,062,039
<i>Secured loans</i>	<i>10,924,579</i>	<i>704,544</i>	<i>—</i>	<i>49,806</i>	<i>184,347</i>	<i>246,645</i>	<i>12,109,921</i>
- Cash deposit	678	—	—	—	—	—	678
- Securities not traded in an active market	2,909,629	—	—	—	—	—	2,909,629
- Real estate	1,821,770	317,771	—	7,983	122,813	—	2,270,337
- Motor vehicles	6,786	25,755	—	15,489	279	241,251	289,560
- Equipment	522,228	105,813	—	7,076	—	—	635,117
- Biological assets	—	2,024	—	—	—	—	2,024
- Inventories	919,303	19,893	—	3,599	—	—	942,795
- Other assets	2,919,119	7,649	—	5,098	59,677	—	2,991,543
- Partially unsecured	1,825,066	225,639	—	10,561	1,578	5,394	2,068,238
<i>Unsecured loans</i>	<i>6,413,814</i>	<i>910,088</i>	<i>—</i>	<i>2,626,016</i>	<i>—</i>	<i>2,200</i>	<i>9,952,118</i>
Total loans to customers, gross	59,856,728	9,144,181	358,812	17,834,543	5,199,438	2,884,459	95,278,161

The table above represents the carrying amount of loans covered by collateral (excluding overcollateralization) that may differ from the fair value of collateral at the reporting date. The fair value of collateral is determined at the inception of the loan and adjusted for subsequent changes in accordance with the Group's internal guidance approved by management. Depending on the type of collateral, the Group applies certain discount rates to estimate the value of collateral at the reporting date.

Partially unsecured loans represent a portion of the loan which is not covered by collateral.

Mortgage loans are secured by the underlying real estate and property rights. Car loans are secured by the underlying cars. The Group's policy is that the fair value of collateral should exceed the loan amount by at least 10% for mortgage loans and 10% for car loans.

11 Loans to customers (continued)

Mortgage loans in relation to construction in progress are secured by related rights to property under construction. In the table above, these loans are shown as loans secured by other assets.

As at 31 December 2014 and 2013, the loan portfolio structure by industry is as follows:

	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Trade	32,024,244	29	18,079,708	20
Individuals	25,826,055	23	25,918,440	27
Finance	19,197,143	17	15,217,842	16
Real estate	12,435,387	11	10,205,380	11
Agriculture	5,800,419	5	4,129,699	4
Food industry	4,215,816	4	6,928,202	7
Construction and manufacturing	4,061,145	4	4,785,485	5
Sports	2,107,006	2	1,135,129	1
Light industry	1,616,604	1	1,223,434	1
Transport	852,457	1	1,211,366	1
Hospitality and catering	603,362	1	612,836	1
Leasing	261,001	—	165,311	—
Other	2,621,066	2	5,665,329	6
Total loans to customers, gross	111,621,705	100	95,278,161	100

As at 31 December 2014, the total amount of unsecured and partially secured loans issued to corporate entities and small and medium enterprises (net of allowance) was RUB 45,830,044 thousand (31 December 2013: RUB 32,478,922 thousand).

As at 31 December 2014, the Group had 50 borrowers (31 December 2013: 45 borrowers) with the amount of loans extended to every borrower in excess of RUB 500,000 thousand. The total aggregate amount of those loans was RUB 63,243,414 thousand (31 December 2013: RUB 43,631,390 thousand) or 57% of the gross loan portfolio (31 December 2013: 46%).

12 Investments available for sale

	31 December 2014	31 December 2013
Held by the Group		
Corporate bonds	3,555,576	3,311,762
Total debt securities	3,555,576	3,311,762
Corporate shares	1,177,221	1,447,877
Mutual fund units	180,089	181,255
Total equity instruments	1,357,310	1,629,132
Total investments available for sale held by the Group	4,912,886	4,940,894
Pledged as collateral under sale and repurchase agreements		
Corporate shares	—	1,863,775
Total investments available for sale pledged as collateral under sale and repurchase agreements	—	1,863,775
Total investments available for sale	4,912,886	6,804,669

Corporate bonds are interest-bearing securities denominated in Russian rubles and issued by Russian companies. As at 31 December 2014, these bonds have maturity dates from May to November 2015 (31 December 2013: from May to July 2014) and a coupon rate of 14% p.a. (31 December 2013: 14% p.a.).

12 Investments available for sale (continued)

Equity instruments are represented by shares of Russian companies and one foreign company, shares of a Russian bank and units of a mutual fund (31 December 2013: represented by shares of Russian companies, shares of a Russian bank and units of a mutual fund).

Investments available for sale pledged as collateral under sale and repurchase agreements can be sold or repledged by the counterparty in accordance with the contractual terms and established practice. As at 31 December 2014, there were no such transactions. As at 31 December 2013, sale and repurchase agreements had the maturity date in January 2014. Related liabilities are recognized in the consolidated statement of financial position in the line "Due to banks" (Note 16) in the amount of RUB 1,575,398 thousand.

As at 31 December 2013, the Group reclassified investments in available-for-sale bonds of a Russian company in the amount of RUB 33,916 thousand with an allowance of RUB 33,916 thousand to loans to customers at the fair value of RUB 0. The fair value of quoted debt securities available for sale is determined based upon prices in the active market. If the fair value of debt securities available for sale cannot be determined based on the market quotations, it is determined using the discounted cash flow method. Cash flows are discounted at market discount rates consisting of a base (risk-free) rate and a corporate risk premium. The risk-free discount rate for debt instruments is the yield to maturity for risk-free securities with corresponding maturities. A corporate risk premium is determined in accordance with the issuer creditworthiness evaluation methodology approved by management. For more information on discount rates refer to Note 35.

13 Investment property

	Land	Real estate	Total
Fair value at 1 January 2013	14,372,931	764,448	15,137,379
Acquisitions	–	115,300	115,300
Revaluation	17,877	(5,958)	11,919
Disposals	(25,127)	(65,396)	(90,523)
Effect of change in ownership interest	(14,029,472)	–	(14,029,472)
Fair value at 31 December 2013	336,209	808,394	1,144,603
Acquisitions	97,575	35,702	133,277
Revaluation	187,529	61,981	249,510
Disposals	(18,222)	(16,251)	(34,473)
Fair value at 31 December 2014	603,091	889,826	1,492,917

The Group has units in closed-end real estate mutual investment funds "TFB-Aktiv", "TFB-Investitzionny", "Nash Novy Dom" and "Priozernyi". The assets of the funds comprise warehouses, office centers, non-residential buildings and land plots. The Group recognizes assets held by the funds as investment property held for capital appreciation.

Investment property is valued by management based on the results of valuation performed by an independent, professionally qualified appraiser who has experience in appraising similar properties.

To evaluate investment property, the Bank uses three main conceptual approaches provided for by the federal law: comparative, income, and cost methods.

The cost method is based on the substitution principle according to which the buyer will not pay for the property more than the cost of acquiring a site and constructing a similar building in terms of its intended use and quality without any significant delay. The direct comparative analysis of sales is based on the substitution principle according to which an informed buyer would not pay for the property more than the purchase price of another property, which, from the point of view of the buyer, is equally attractive and has similar consumer characteristics.

The income approach allows to determine the value of the property by assessing the quantity, quality and duration of the benefits to be obtained from the property during the forecast period.

13 Investment property (continued)

The total market value of the property is calculated by assigning the specific weights to the results obtained.

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

Income from investment property recognized in profit comprises:

	2014	2013
Revaluation gain	249,510	11,919
Gain on disposal	165,003	44,827
Gain on sale of interest	—	1,352,697
Total	414,513	1,409,443

14 Property and equipment

Movements in property and equipment for the year ended 31 December 2014 are presented in the following table:

	Buildings	Office and computer equipment	Construction in progress (CIP) and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2014	731,902	1,152,816	90,578	1,975,296
Additions	—	—	175,707	175,707
Disposals	(829)	(79,512)	—	(80,341)
Transfer from CIP	1,208	212,293	(213,501)	—
At 31 December 2014	732,281	1,285,597	52,784	2,070,662
Depreciation				
At 1 January 2014	(663)	(646,318)	—	(646,981)
Depreciation charge for the year	(15,065)	(162,774)	—	(177,839)
Depreciation of disposed property and equipment	13	69,313	—	69,326
At 31 December 2014	(15,715)	(739,779)	—	(755,494)
Carrying amount at 31 December 2014	716,566	545,818	52,784	1,315,168

14 Property and equipment (continued)

Movements in property and equipment for the year ended 31 December 2013 are presented in the following table:

	Buildings	Office and computer equipment	Construction in progress (CIP) and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2013	555,194	913,220	58,423	1,526,837
Additions	—	—	372,667	372,667
Acquisition through business combination	—	19,074	—	19,074
Disposals	(9,552)	(35,119)	—	(44,671)
Transfer from CIP	84,871	255,641	(340,512)	—
Revaluation	101,389	—	—	101,389
At 31 December 2013	731,902	1,152,816	90,578	1,975,296
Depreciation				
At 1 January 2013	(21,160)	(536,105)	—	(557,265)
Depreciation charge for the year	(1,764)	(137,379)	—	(139,143)
Accumulated depreciation for disposals	1,101	27,166	—	28,267
Reversed depreciation due to revaluation	21,160	—	—	21,160
At 31 December 2013	(663)	(646,318)	—	(646,981)
Carrying amount at 31 December 2013	731,239	506,498	90,578	1,328,315

As at 31 December 2014, fully depreciated items in the amount of RUB 358,135 thousand (31 December 2013: RUB 418,345 thousand) are included in office and computer equipment.

Buildings were valued by an independent firm of professional appraisers as at 31 December 2013. Market value was determined using three basic conceptual approaches: the income, market and cost approaches (provided for by federal law).

Under the income approach, valuation is based on the principle that real estate value is directly related to the present value of all future net income that the real estate item is expected to generate.

Under the market approach, the market value of an asset is determined by analyzing recent sales of comparable real estate properties, similar by size and use to the subject property. This valuation technique assumes that the market will set the price for the subject property similarly to comparable peer properties.

The cost approach is applied when there is a possibility to replace the subject asset by another asset that is either an exact replica of the original subject asset or that provides similar utility. If the subject asset's value tends to decrease due to its physical condition or functional and economic obsolescence, depreciation and all types of obsolescence are to be considered when applying the cost approach.

Changes in the estimates could affect the cost of buildings. For example, a plus/minus ten percent change in the net present value of the estimated cash flows will increase/decrease the value of buildings by RUB 71,657 thousand as at 31 December 2014 (31 December 2013: RUB 73,124 thousand).

Included in the carrying amount of buildings is RUB 196,208 thousand (31 December 2013: RUB 200,501 thousand) representing a revaluation surplus. Had the assets been carried at cost less depreciation, the carrying amount of buildings as at 31 December 2014 would have been RUB 432,810 thousand (31 December 2013: RUB 443,189 thousand).

Construction in progress consists mainly of construction and refurbishment of branch and office premises. Equipment not put in use represents office and computer equipment which the Group has not yet started to use. Upon completion/putting into operation, these assets are transferred to the corresponding category of property and equipment.

15 Other assets

	31 December 2014	31 December 2013
Other financial assets		
Settlements on transactions with securities	1,650,827	1,464,550
Plastic cards receivables	301,681	127,638
Settlements with suppliers and contractors	295,386	262,085
Finance lease receivables	106,635	106,177
Receivables in transactions with bank guarantees	38,559	–
Receivables on payments for commemorative coins	10,850	68,618
Derivative financial instruments (Note 9)	9,329	27,144
Other	58,559	169,203
Allowance for impairment of other financial assets	(5,626)	(124,142)
Total other financial assets	2,466,200	2,101,273
Other non-financial assets		
Inventories	328,418	419,314
Capitalized software development costs	277,333	277,333
Software maintenance	194,237	170,791
Prepaid income tax	143,503	335
Precious metals	79,063	78,925
Other taxes prepaid	29,715	3,828
Assets classified as held for sale	20,850	6,067
Other	13,987	30,801
Allowance for impairment of software development costs	(277,333)	(277,333)
Total other non-financial assets	809,773	710,061
Total other assets	3,275,973	2,811,334

Assets classified as inventories include apartments owned by the real estate mutual investment fund "Nash Novy Dom" in the amount of RUB 137,144 thousand (31 December 2013: RUB 234,140 thousand), and part of collateral in the amount of RUB 191,274 thousand repossessed by the Group from debtors due to their default on overdue loans (31 December 2013: RUB 185,174 thousand). In accordance with IAS 2 *Inventories*, the Group measures these assets at the lower of cost and net realizable value.

Assets classified as held for sale in the amount of RUB 20,850 thousand (31 December 2013: RUB 6,067 thousand) are represented by collateral repossessed by the Group from debtors due to their default on overdue loans. The Group is actively marketing these assets and expects to finalize their sale within one year from the date of classification. Property is offered on the market at a price comparable to its current fair value.

Movements in the allowance for impairment of other assets in 2014 and 2013 were as follows:

	2014	2013
Balance at 1 January	401,475	279,697
Allowance/(reversal of allowance) for impairment of financial assets	(118,330)	121,778
Other assets written off against allowance	(186)	–
Balance at 31 December	282,959	401,475

16 Due to banks

	31 December 2014	31 December 2013
Due to the Central Bank of the Russian Federation	13,004,610	6,505,580
Sale and repurchase agreements	7,610,720	3,326,880
Term deposits	5,393,890	3,178,700
Due to banks	11,938,756	5,796,153
Term deposits of banks	11,754,426	4,007,460
Loro accounts and overnight deposits of banks	119,403	41,754
Sale and repurchase agreements	64,927	1,746,939
Total due to banks	24,943,366	12,301,733

As at 31 December 2014, due to banks includes amounts from four banks (31 December 2013: two banks) whose balances individually exceed 10% of total due to banks. The total value of balances due to these credit institutions as at 31 December 2014 amounts to RUB 10,043,048 thousand (31 December 2013: RUB 2,101,546 thousand).

As at 31 December 2014, due to banks includes funds received from JSC "Russian Bank for Small and Medium Enterprises Support" for the purpose of providing loans to SMEs in the amount of RUB 2,275,438 thousand (31 December 2013: RUB 1,397,676 thousand), or 19% (31 December 2013: 34.9%) of the total amount due to banks. These liabilities mature from 25 June 2015 to 10 March 2021 (31 December 2013: from 5 March 2014 to 30 August 2020). Interest rates vary from 6.4% to 9.25% p.a. (31 December 2013: from 7.5% to 8.5% p.a.). Outstanding balances of loans issued using the funds received from JSC "Russian Bank for Small and Medium Enterprises Support" amount to RUB 2,056,736 thousand (31 December 2013: RUB 1,308,152 thousand).

As at 31 December 2014, liabilities in the amount of RUB 7,675,647 thousand (31 December 2013: RUB 5,073,819 thousand) under sale and repurchase agreements were effectively collateralized by securities with the fair value of RUB 9,406,583 thousand (31 December 2013: RUB 6,190,048 thousand) (Notes 8, 12).

17 Customer accounts

	31 December 2014	31 December 2013
Corporate entities	30,425,214	14,483,865
- Term deposits	23,216,602	8,376,657
- Current/settlement accounts	6,663,048	6,107,208
- Sale and repurchase agreements	545,564	–
Individuals	59,735,112	52,288,451
- Term deposits	55,843,689	46,893,728
- Current accounts/demand accounts	3,891,423	5,394,723
Total customer accounts	90,160,326	66,772,316

As at 31 December 2014, liabilities under sale and repurchase agreements in the amount of RUB 545,564 thousand were effectively collateralized by securities with the fair value of RUB 772,256 thousand. As at 31 December 2013, the Group had no liabilities under sale and repurchase agreements.

17 Customer accounts (continued)

Industry concentrations within customer accounts are as follows:

	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Individuals	59,735,112	67	52,288,451	78
Construction and manufacturing	17,662,068	20	3,837,021	6
Finance	3,004,655	3	2,864,380	5
Trade	2,695,394	3	2,334,252	4
Real estate	1,302,465	1	608,192	1
Food industry	1,133,651	1	292,402	—
Transport	532,870	1	1,280,185	2
Agriculture	202,084	—	223,071	—
State-owned companies	153,062	—	203,191	—
Legal services	56,710	—	52,149	—
Hospitality and catering	36,531	—	92,739	—
Leasing	36,235	—	452,528	1
Other	3,609,489	4	2,243,755	3
Total customer accounts	90,160,326	100	66,772,316	100

As at 31 December 2014, the Group has seven customers (31 December 2013: three customers) with balances exceeding RUB 500,000 thousand. The total value of these balances amounts to RUB 18,453,252 thousand (31 December 2013: RUB 2,671,979 thousand), or 20% (31 December 2013: 4%) of total customer accounts.

18 Debt securities issued

	31 December 2014	31 December 2013
Russian ruble-denominated bonds	19,369,024	18,415,998
Russian ruble-denominated promissory notes	844,504	4,994,723
Foreign currency-denominated promissory notes	186,531	2,767,977
Total debt securities issued	20,400,059	26,178,698

As at 31 December 2014, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal amount	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option at 31 December 2014
Exchange-traded bonds of fourth issue	3,123,879	3,000,000	21 February 2012	17 February 2015	11.50	—
Exchange-traded bonds of fifth issue	2,059,663	2,000,000	10 April 2012	7 April 2015	12.50	—
Exchange-traded bonds of sixth issue	2,050,783	2,000,000	16 October 2012	13 October 2015	12.30	—
Exchange-traded bonds of seventh issue	2,076,859	2,000,000	8 February 2013	5 February 2016	11.50	12 February 2015
Exchange-traded bonds of eighth issue	3,059,151	3,000,000	10 October 2013	6 October 2016	11.80	15 April 2015
Exchange-traded bonds of eleventh issue	3,991,767	3,854,327	17 September 2013	13 September 2016	12.30	21 September 2015
Exchange-traded bonds of fifteenth issue	3,006,922	3,000,000	24 December 2014	11 December 2024	14.00	29 December 2015
Total Russian ruble-denominated bonds issued	19,369,024					

18 Debt securities issued (continued)

As at 31 December 2013, bonds denominated in Russian rubles are represented by interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX):

	Carrying amount	Nominal amount	Date of placement	Final maturity date	Coupon rate, %	Date of early redemption option at 31 December 2013
Exchange-traded bonds of second issue	2,058,814	2,000,000	21 April 2011	17 April 2014	12.25	–
Exchange-traded bonds of third issue	1,967,657	2,000,000	1 December 2011	27 November 2014	11.00	–
Exchange-traded bonds of fourth issue	3,121,130	3,000,000	21 February 2012	17 February 2015	12.25	24 February 2014
Exchange-traded bonds of fifth issue	2,061,929	2,000,000	10 April 2012	7 April 2015	12.25	14 April 2014
Exchange-traded bonds of sixth issue	2,003,873	2,000,000	16 October 2012	13 October 2015	11.00	20 October 2014
Exchange-traded bonds of seventh issue	2,077,381	2,000,000	8 February 2013	5 February 2016	12.75	13 February 2014
Exchange-traded bonds of eighth issue	2,044,558	2,000,000	10 October 2013	6 October 2016	11.80	15 April 2015
Exchange-traded bonds of eleventh issue	3,080,656	3,000,000	17 September 2013	13 September 2016	11.25	22 September 2014
Total Russian ruble-denominated bonds issued	18,415,998					

The volumes of bonds partially repurchased at the offer date and bonds sold are presented below:

	31 December 2014		31 December 2013	
	Early redemption	Sale of own bonds	Early redemption	Sale of own bonds
Sixth issue	–	–	–	27,002
First issue of exchange-traded bonds	–	–	–	63,962
Second issue of exchange-traded bonds	–	–	–	74,536
Third issue of exchange-traded bonds	–	35,477	1,390,855	1,611,935
Fourth issue of exchange-traded bonds	1,982,979	1,982,979	1,583,654	1,583,654
Fifth issue of exchange-traded bonds	640,404	640,575	144,971	144,800
Sixth issue of exchange-traded bonds	1,417,824	1,417,910	903,403	903,317
Seventh issue of exchange-traded bonds	793,445	793,445	–	–
Eleventh issue of exchange-traded bonds	2,638,120	2,492,447	–	–
Total Russian ruble-denominated bonds issued	7,472,772	7,362,833	4,022,883	4,409,206

Promissory notes denominated in Russian rubles and foreign currencies are represented by discount, interest-bearing and interest-free securities issued by the Group. These promissory notes mature from January 2015 to February 2016 (31 December 2013: from January 2014 to April 2015). The effective interest rate varies from 3.02% to 27.70% p.a. (31 December 2013: from 4.55% to 11.92% p.a.).

19 Eurobonds issued

On 28 April 2014, the Group placed three-year Eurobonds for the amount of USD 70 million with a yield of 11% p.a.; early redemption under the offer is possible in one and a half years. As at 31 December 2014, the amortized cost of Eurobonds amounted to RUB 3,820,534 thousand.

As agreed upon between the parties, the Group is required to comply with the following financial covenants:

- ▶ Full compliance with the CBR obligatory ratios and other requirements;
- ▶ Ratio of capital to risk-weighted assets of at least 11%.

Management believes that as at 31 December 2014 and for the year then ended the Group complied with all of the above covenants.

20 Other borrowings

Other borrowings include loans received from other corporations in the amount of RUB 1,195,682 thousand (31 December 2013: nil).

21 Other liabilities

Other liabilities comprise the following:

	31 December 2014	31 December 2013
Other financial liabilities		
Settlements on transactions with financial instruments	279,240	256,821
Obligatory deposit insurance contributions	56,394	51,052
Payroll payable	46,488	135,281
Plastic cards payables	34,827	14,864
Derivative financial instruments (Note 9)	14,515	4,491
Fees on bank guarantees issued	7,891	23,055
Other	31,540	78,089
Total other financial liabilities	470,895	563,653
Other non-financial liabilities		
Other taxes payable	60,775	45,339
Income tax payable	–	66,041
Total other non-financial liabilities	60,775	111,380
Total other liabilities	531,670	675,033

22 Subordinated borrowings and Eurobonds

	Date of receipt	Repayment date	Interest rate, % p.a.	Effective interest rate, %	31 December 2014	31 December 2013
Subordinated borrowing	21 December 2010	1 August 2019	8.00	8.30	2,099,995	2,100,002
Subordinated borrowing	18 July 2013	23 January 2020	9.25	9.65	999,995	999,994
Subordinated Eurobonds	7 August 2014	–	12.50	12.50	3,500,379	–
Total subordinated borrowings and Eurobonds					6,600,369	3,099,996

On 30 June 2014, the maturity of subordinated borrowings totaling RUB 2,099,995 thousand was extended until 1 August 2019.

On 7 August 2014, the Group issued perpetual subordinated Eurobonds in the amount of USD 60 million with an interest rate of 12.5% p.a. to a limited number of private and institutional investors.

In the event of the Group's bankruptcy, these borrowings will be repaid after the claims of all other creditors are settled.

23 Change in non-controlling interest

The change in non-controlling interests recorded within liabilities are presented below:

	31 December 2014	31 December 2013
Non-controlling interests at the beginning of the period	79,866	7,186,507
Share in net (loss) profit	(138,161)	(13,120)
Change in non-controlling interests	1,685,674	(7,093,521)
Non-controlling interests at the end of the period	1,627,379	79,866

The change in non-controlling interests recorded within equity are presented below:

	31 December 2014	31 December 2013
Non-controlling interests at the beginning of the period	166,521	–
Share in net (loss) profit	(1,911)	(25,594)
Change in non-controlling interests	–	192,115
Non-controlling interests at the end of the period	164,610	166,521

24 Share capital

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian ruble, as at 31 December 2014 is RUB 12,600,000 thousand (31 December 2013: RUB 12,600,000 thousand). The authorized share capital of the Bank consists of 1,067,000,000 ordinary shares with a nominal value of RUB 10 per share. The issued share capital of the Bank comprises 1,260,000,000 ordinary shares (31 December 2013: 1,260,000,000 ordinary shares) with a nominal value of RUB 10 per share. Each share carries one vote.

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares		Nominal amount		Inflation adjustment	Total
	Preference	Ordinary	Preference	Ordinary		
At 31 December 2012	–	860,000,000	–	8,600,000	511,618	9,111,618
Issue of share capital	–	400,000,000	–	4,000,000	–	4,000,000
At 31 December 2013	–	1,260,000,000	–	12,600,000	511,618	13,111,618
Change	–	–	–	–	–	–
At 31 December 2014	–	1,260,000,000	–	12,600,000	511,618	13,111,618

As at 31 December 2014, paid-up share capital adjusted for inflation amounts to RUB 13,111,618 thousand (31 December 2013: RUB 13,111,618 thousand).

Profit is distributed based on accumulated earnings recorded in statutory financial statements. According to Russian law, as at 31 December 2014, the Bank's reserves and retained earnings amounted to RUB 2,048,733 thousand (31 December 2013: RUB 2,480,447 thousand).

24 Share capital (continued)

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	Unrealized gains/(losses) on investment securities available for sale	Accumulated deficit	Total
At 1 January 2013	103,739	137,255	(1,707,480)	(1,466,486)
Revaluation of buildings	101,056	—	—	101,056
Tax effect of revaluation of buildings				
Amortization of revaluation reserve, net of tax	(4,294)	—	4,294	—
Net unrealized gains on investment securities available for sale	—	615,773	—	615,773
Realized (losses) on investment securities available for sale, reclassified to the income statement	—	(689,114)	—	(689,114)
Tax effect of net gains on investment securities available for sale	—	14,668	—	14,668
Profit for the period	—	—	235,594	235,594
At 31 December 2013	200,501	78,582	(1,467,592)	(1,188,509)
At 1 January 2014	200,501	78,582	(1,467,592)	(1,188,509)
Amortization of revaluation reserve, net of tax	(4,293)	—	4,293	—
Net unrealized (losses) on investment securities available for sale	—	(134,361)	—	(134,361)
Realized (losses) on investment securities available for sale, reclassified to the income statement	—	(192,243)	—	(192,243)
Tax effect of net gains on investment securities available for sale	—	65,322	—	65,322
Loss for the period	—	—	(1,454,526)	(1,454,526)
Contributions from Shareholders, net of income tax	—	—	704,022	704,022
Disposal of non-controlling interest in a subsidiary	—	—	25,080	25,080
Sale of interest in a subsidiary	—	—	(840,801)	(840,801)
At 31 December 2014	196,208	(182,700)	(3,029,524)	(3,016,016)

No dividends for 2014 and 2013 were declared.

25 Interest income and expense

	2014	2013
Interest income		
<i>Total interest income for financial assets at fair value through profit or loss</i>	1,026,071	535,453
Debt financial instruments at fair value through profit or loss	1,026,071	535,453
<i>Total interest income for financial assets not at fair value through profit or loss</i>	13,200,280	10,472,812
Loans to customers (not impaired)	9,930,641	8,648,731
Loans to customers (impaired)	2,515,414	1,383,803
Debt investments available for sale	429,212	374,377
Due from banks	85,898	47,734
Receivables under sale and repurchase agreements	65,996	16,740
Other	173,119	1,427
Total interest income	14,226,351	11,008,265
Interest expense		
<i>Total interest expense for financial assets measured at amortized cost</i>	10,536,543	8,928,765
Customer accounts	5,849,866	5,294,176
Debt securities issued	2,586,148	2,532,348
Term deposits of other banks and securities purchase and resale transactions	1,507,315	666,601
Subordinated borrowings	389,691	435,640
Eurobonds issued	203,523	—
Total interest expense	10,536,543	8,928,765
Net interest income	3,689,808	2,079,500

26 Fee and commission income and expense

	2014	2013
Fee and commission income		
Settlement operations	820,116	901,350
Transactions with plastic cards	520,921	372,678
Guarantees and letters of credit issued	264,284	43,268
Cash transactions	239,242	150,389
Transactions with securities	39,277	164,575
Currency operations	18,766	21,275
Fiduciary transactions	11,115	9,818
Other	192	133
Total fee and commission income	1,913,913	1,663,486
Fee and commission expense		
Transactions with plastic cards	102,543	64,044
Transactions with securities	52,027	53,807
Settlement operations	50,938	42,710
Cash collection	42,254	33,595
Fiduciary transactions	38,920	53,113
Guarantees and letters of credit received	17,332	13,473
Cash transactions	6,073	7,672
Other	11,586	8,797
Total fee and commission expense	321,673	277,211
Net fee and commission income	1,592,240	1,386,275

27 Losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation

	2014	2013
Losses less gains from foreign currency translation	(2,567,977)	(175,503)
Gains less losses from foreign currencies	1,252,973	6,983
Gains less losses from foreign exchange derivatives	802,184	323
Total losses less gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(512,820)	(168,197)

28 Allowance for impairment

	2014	2013
Loans to customers	(3,530,152)	(2,693,590)
Other assets	118,330	(121,778)
Provision for legal claims	–	32,340
Investments available for sale	–	94,534
Total allowances for impairment	(3,411,822)	(2,688,494)

29 Administrative and other operating expenses

	2014	2013
Staff costs	1,916,145	1,791,874
Rent	401,860	369,386
Deposit insurance	218,680	191,269
Telecommunication services and stationery	193,265	222,467
Repairs and maintenance	178,349	161,019
Depreciation of property and equipment (Note 14)	177,839	139,143
Taxes other than income tax	171,685	141,752
Software maintenance expenses	134,054	72,603
Software licenses	100,987	43,633
Professional services	91,659	66,956
Advertising and marketing services	74,969	86,356
Security	35,212	35,267
Charity	34,344	46,191
Other	92,616	98,187
Total administrative and other operating expenses	3,821,664	3,466,103

Included in staff costs are statutory social security and pension contributions (unified social tax) of RUB 408,644 thousand (2013: RUB 376,929 thousand).

30 Income tax expense

Income tax expense comprises the following:

	2014	2013
Current tax expense	25,719	161,421
Less: current income tax expense recognized in equity	(176,006)	–
Deferred tax expense (benefit) – origination and reversal of temporary differences	144,982	(212,586)
Income tax expense (benefit)	(5,305)	(51,165)

30 Income tax expense (continued)

Deferred tax charged to other comprehensive income is as follows:

	2014	2013
Net gains/(losses) from investment securities available for sale	(65,322)	(14,668)
Revaluation of buildings	–	25,264
Income tax recognized in other comprehensive income	(65,322)	10,596

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of certain companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

Russian legal entities must file individual corporate income tax declarations with the tax authorities. The standard income tax rate for companies (including banks) was 20% for 2014 and 2013. In 2014 and 2013, corporate income tax rate applicable to interest (coupon) income on state bonds and mortgage-backed bonds was 15%, while corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. In 2014 and 2013, dividends are subject to Russian income tax at a standard rate of 9%, which could be reduced to 0% subject to certain criteria.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	2013
(Loss)/profit before tax	(1,461,742)	158,835
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/expense at statutory tax rate	(292,348)	31,767
Tax effect of items, which are not deductible for taxation purposes		
Permanent differences:		
Tax-exempt income	(28,251)	(9,793)
Non-deductible expenses	37,066	12,241
Income on government securities taxed at different rates	(6,692)	(7,782)
Income from sale of a subsidiary	(311,054)	–
Movement in unrecognized net deferred tax assets	633,890	(98,399)
Other	(37,916)	20,801
Income tax benefit	(5,305)	(51,165)

Differences between IFRS and the Russian taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for the purposes of these consolidated financial statements and income tax purposes as at 31 December 2014 and 2013.

30 Income tax expense (continued)

Movements in temporary differences for the years ended 31 December 2013 and 2014 are as follows:

	1 January 2013	Recognized in profit or loss	Recognized in other comprehen- sive income	1 January 2014	Recognized in profit or loss	Recognized in other comprehen- sive income	Disposal of a subsidiary	31 December 2014
Deferred tax assets								
Investments in securities	649	77,173	–	77,822	(77,759)	–	–	63
Provisions	670,176	236,977	–	907,153	(174,619)	–	(322,911)	409,623
Loans and advances to customers	11,649	26,368	–	38,017	(38,017)	–	–	–
Tax loss carry-forwards	307,649	(307,649)	–	–	868,248	–	(16,185)	852,063
Other	46,879	54,589	–	101,468	(101,468)	–	–	–
Gross deferred tax asset	1,037,002	87,458	–	1,124,460	476,385	–	(339,096)	1,261,749
<i>Unrecognized deferred tax assets</i>	<i>(779,059)</i>	<i>98,399</i>	<i>–</i>	<i>(680,660)</i>	<i>(633,890)</i>	<i>–</i>	<i>339,096</i>	<i>(975,454)</i>
Deferred tax asset	257,943	185,857	–	443,800	(157,505)	–	–	286,295
Deferred tax liabilities								
Investments in securities	(841,569)	69,844	14,668	(757,057)	(8,215)	65,322	–	(699,950)
Property and equipment	(62,396)	(26,841)	(25,264)	(114,501)	–	–	–	(114,501)
Other	(4,464)	(16,274)	–	(20,738)	20,738	–	–	–
Total deferred tax liabilities	(908,429)	26,729	(10,596)	(892,296)	12,523	65,322	–	(814,451)
Net deferred tax asset / deferred tax liability	(650,486)	212,586	(10,596)	(448,496)	(144,982)	65,322	–	(528,156)

A deferred tax asset is the amount of income tax that may be offset against future income taxes and is recorded in the consolidated statement of financial position. A deferred tax asset is recorded only to the extent that the realization of the related tax benefit is probable.

As at 31 December 2014, the Group did not recognize deferred tax assets in the amount of RUB 975,454 thousand (31 December 2013: RUB 680,660 thousand) as management does not believe that the Group will be able to recover the related benefits.

31 Segment analysis

The Group is organized into three main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. The operations in each of the reportable segments are described below:

- ▶ Corporate banking – current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency operations, and other transactions with corporate customers.
- ▶ Retail banking – banking services to individuals, including current accounts, deposits, custody, credit and debit cards, consumer loans and mortgages.
- ▶ Investment banking – trading in financial instruments, including derivatives, providing loans and attracting deposits in the interbank market. The Group does not allocate equity between segments.

The Management Board evaluates the profitability of the operating segments based on financial information prepared using the accounting data maintained in accordance with Russian Accounting Principles.

The accounting policies relating to operating segments are based on the Russian Accounting Principles, therefore they differ significantly from the accounting policies described in these consolidated financial statements. Information regarding the results of each reporting segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry.

31 Segment analysis (continued)

The Group does not allocate the net book value of property and equipment between the segments to determine the total value of segment assets. These assets are included in "Unallocated" category for segment reporting purposes.

Segment information on the main reportable operating segments of the Group in 2014 is presented in the table below:

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
2014					
Total revenue comprises:					
- Interest income	7,301,303	3,909,655	3,399,173	–	14,610,131
- Fee and commission income	1,172,493	1,054,796	(48,072)	–	2,179,217
- Other operating income	1,114,822	114,278	635,895	16,496	1,881,491
Total external revenues	9,588,618	5,078,729	3,986,996	16,496	18,670,839
Intersegment revenues	2,056,251	5,694,386	4,316,777	677	12,068,091
Segment results	1,256,271	(285,817)	(480,596)	(292,398)	197,460
31 December 2014					
Segment assets	66,231,249	21,421,991	57,110,146	17,391,255	162,154,641
Segment liabilities	36,336,195	57,891,800	50,396,689	2,514,724	147,139,408

Segment information for the main reportable operating segments for the year ended 31 December 2013 is set out below.

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
2013					
Total revenue comprises:					
- Interest income	6,019,843	3,328,431	2,935,229	–	12,283,503
- Fee and commission income	589,173	1,157,695	4,324	643	1,751,835
- Other operating income	20,856	52,852	76,239	25,454	175,401
Total external revenues	6,629,872	4,538,978	3,015,792	26,097	14,210,739
Intersegment revenues	1,747,471	5,121,840	3,507,806	14	10,377,131
Segment results	1,043,882	(269,799)	98,889	(291,280)	581,692
31 December 2013					
Segment assets	55,779,867	22,861,003	31,218,675	11,147,212	121,006,757
Segment liabilities	19,629,358	50,486,837	34,458,584	1,351,528	105,926,307

The difference in the amount of interest income recorded in management accounts and that for IFRS purposes is due to the fact that interest income for management accounts includes fiduciary fees and commissions.

Administrative and other operating expenses are allocated between segments for the purposes of segment analysis based on cost components, the principal one being the headcount.

Intersegment revenues were calculated for management accounting purposes in accordance with transfer pricing principles applied by the Bank.

31 Segment analysis (continued)

A reconciliation of profit before tax per management accounts to profit before tax as presented in these IFRS consolidated financial statements is provided below:

	2014	2013
Profit before tax per management accounts	197,460	581,692
Adjustments in allowances for impairment	1,377,508	(1,745,818)
Consolidation adjustments	260,721	1,811,047
Adjustments in assets and liabilities at fair value	(974,364)	(546,266)
Adjustments in assets and liabilities at amortized cost	(1,396,295)	–
Reclassification of funds received from Shareholders	(880,028)	–
Other adjustments	(46,744)	58,180
Profit before tax per IFRS financial information	(1,461,742)	158,835

Financial information in the segment analysis (or management accounting) differs in many respects from the information prepared in accordance with IFRS. The major differences are:

- ▶ Allowance adjustments arise from differences in valuation techniques applied when calculating allowances for loan impairment under IFRS and RAP for management accounting purposes.
- ▶ A difference in the revaluation of securities recorded at fair value through profit or loss arises from differences between valuation techniques for securities under IFRS and RAP for management accounting purposes.
- ▶ Adjustments to accumulated income/expenses arise mainly from the fact that the Group uses nominal interest rates when preparing management accounts and effective interest rates when preparing IFRS financial statements.
- ▶ Consolidation of subsidiaries.
- ▶ Allowance for impairment of other financial assets.
- ▶ Revaluation of investment property.

A reconciliation of total segmental assets/liabilities per management accounts to total assets/liabilities as presented in these IFRS consolidated financial statements is provided below:

	31 December 2014		31 December 2013	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounts	162,154,641	147,139,408	121,006,757	105,926,307
Adjustments in allowances for impairment	(4,078,979)	–	(5,456,487)	–
Consolidation adjustments	5,486,601	2,512,260	6,202,340	3,488,720
Adjustments in assets and liabilities at fair value, other than investments in the Group's subsidiaries and mutual funds	(937,392)	70,851	(29,388)	4,491
Adjustments in assets and liabilities at amortized cost	(1,396,295)	–	–	–
Other adjustments	(760,375)	485,470	480,499	694,573
Total assets/liabilities per IFRS financial statements	160,468,201	150,207,989	122,203,721	110,114,091

Information about major customers. Substantially all revenues from external customers are generated from transactions within the Republic of Tatarstan with counterparties located in the Republic of Tatarstan. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of total revenues. Most of non-current assets are located in the Russian Federation.

32 Financial risk management

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity, interest rate, currency and price risks) and functional risks (operational, legal and reputational risks). The primary objective of financial risk management is establishing risk limits and ensuring compliance therewith. Functional risk management must ensure proper compliance with internal regulations and procedures to minimize operational and regulatory risks.

Risk management functions are split between bodies responsible for establishing risk management policies and procedures, including setting limits, and those who are responsible for implementing these policies and procedures, including monitoring risks and limits on a continuous basis.

The Board of Directors, the Audit and Risk Committee of the Board of Directors and the Management Board set the risk management policies of the Bank.

- ▶ *The Board of Directors* is authorized to approve the principal risk management policies and develop a strategy for risk management and control. The Board of Directors also approves certain significant transactions. The Board of Directors approves the risk management policy, risk limits and frequency of limits review, approves risk mitigation policies for all transactions, specifies types of banking and other transactions that require preliminary approval, and controls the executive risk management bodies. The Board of Directors is ultimately responsible to the Bank's owners for ensuring a complete and adequate understanding of risks and potential losses as well as for ensuring that the Management Board takes all necessary steps to maintain effective functioning of the risk management and control system.
- ▶ *The Audit and Risk Committee of the Board of Directors* is a special permanent body created by the Board of Directors to analyze the most critical issues within its competence. The objectives of creating the Committee are to increase the effectiveness of the Bank's internal control, audit and risk management systems and to ensure that the Board of Directors performs its management and supervisory functions related to the operation of the systems. The Committee acts in the interests of the Bank, its shareholders and investors and ensures the involvement of the members of the Board of Directors in the control over the financial and business operations of the Bank, compliance with legislation and the requirements of supervisory and regulatory bodies, the reliability of financial statements, and the transparency and completeness of financial information.
- ▶ *The Management Board* is responsible for implementing the risk management policy established and approved by the Board of Directors. The Management Board approves internal guidance for the Bank's functions involved in risk management, establishes key risk management principles, sets the limits for transactions in the financial (money) markets as well as the procedures for their approval within its powers. The Management Board approves the credit policy, appoints members of the Bank's Credit Committees and approves decisions within its powers.

The Asset and Liability Management Committee, Credit Committees, Risk Committee, Treasury, Internal Audit Function, Internal Control Function, Securities Market Control Department, and the Risk Management Department implement the Bank's risk management policy.

- ▶ *The Asset and Liability Management Committee* has the power and authority to determine and implement the Bank's current and long-term policy with regard to managing the Bank's assets and liabilities, financial risks and liquidity. The Committee is responsible for managing liquidity, the Bank's interest rate policy and financial risks, and for coordinating the activities of different units pertaining to managing the balance sheet structure and financial risks. Managerial decisions adopted by the Committee on adjusting the structure of the Bank's assets and liabilities are within the effective limits established by the Management Board (limits for counterparties, the Bank's business units, financial instruments, industries and regions), and are in line with the lending decisions approved by the Credit Committees. Should liquidity be insufficient, the Committee may decide to reduce the value or suspend any transaction, and postpone lending operations approved by the Credit Committees.
- ▶ *The Credit Committees* take decisions, within their powers, on the transactions with the counterparties in order to mitigate the risk of the counterparties' failure to perform their obligations to the Bank (credit risk) as well as to maximize economic efficiency of these transactions.
- ▶ *The Risk Committee* is a collective body established for the purpose of assisting the Bank's Management Board to manage risks, enhance governance, and promptly react to critical risks. The Committee's main task is to decide on organizing and maintaining an effective risk management framework.

32 Financial risk management (continued)

- ▶ *The Treasury* is primarily responsible for managing short-term and current liquidity within the established requirements and limits. It is also responsible for monitoring compliance with the approved limits, it participates in the development of the liquidity risk mitigation policy and procedures and also the standards and procedures of banking transactions.
- ▶ *The Internal Audit Function* is responsible for compliance with all applicable legislation and internal rules and decisions, including the Bank's credit policy. The Internal Audit Function participates in developing risk mitigation procedures, as well as the standards and procedures of banking transactions. The Internal Audit Function reports directly to the Board of Directors.
- ▶ *The Internal Control Function* was established to increase the effectiveness of the internal control system and management of regulatory risks (legal, reputational, or risk of inflicting significant financial losses). The function is responsible for compliance of the internal documents to the legal requirements. It develops procedures designed to reduce regulatory risks and performs preliminary and ongoing control over transactions.
- ▶ *The Securities Market Control Department* continuously controls compliance with the risk management policy by staff and units and participates in financial risk management with respect to the operations in the securities market.
- ▶ *The Risk Management Department* reviews the financial position of the counterparties, evaluates the data and calculates the limits for major risks, prepares proposals on risk mitigation and (in accordance with the approved limits) proposes on limits for certain transactions and/or counterparties.

The Board of Directors has approved the Risk Assessment and Management Policy that establishes the principal policies of banking risk management and assessment.

There were no significant changes in the objectives, policies and processes for managing risk and in the methods used to measure risk.

Credit risk. Credit risk is the risk of financial loss resulting from default by a borrower or counterparty on their obligation to the Group.

The following management bodies and business units of the Bank are involved in managing credit risk: Management Board, Asset and Liability Management Committee, Credit Committees, Risk Management Department, Internal Audit Function, Collateral and Asset Department and Security Department.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the contingent liability.

In accordance with the Limit Policy, the Group controls its credit risk by complying with the established limits in relation to one borrower, or group of related borrowers, and by setting limits for geographical and industry segments. Limits on the level of credit risk by product and industry are approved regularly by management. Such risks are monitored on a regular basis, and limits are reviewed at least annually.

The Group has set up several credit committees which are standing bodies of the Bank responsible for deciding on corporate and retail lending.

Credit committees include:

- ▶ Credit Committee for lending to legal entities and individual entrepreneurs;
- ▶ Credit Committee for lending to individuals;
- ▶ Small Credit Committee for lending to legal entities and individual entrepreneurs;
- ▶ Small Credit Committee for lending to individuals.

Loan applications from the client relationship managers are passed on to the relevant Credit Committee for the credit limit approval. Exposure to credit risk is also managed by obtaining collateral and guarantees from companies and individuals.

32 Financial risk management (continued)

To monitor credit risk, the credit department employees prepare regular reports based on the structured analysis of the customer's business and financial performance. All information on significant risks in respect of customers with deteriorating creditworthiness is communicated to and reviewed by the Credit Committees and the Management Board.

Limitations of Credit Committee powers are set by the Management Board according to internal regulations.

Limitations of authority of collective bodies are determined based on the reasonableness, materiality and required decision-making promptness.

The Collateral and Asset Department regularly measures the fair value of collateral used for making adjustments to the allowance for impairment (at least on a quarterly basis). The collateral is revalued in case of deterioration of the borrower's financial position, and in case of identification (in the course of checking the availability and state of collateral) of facts affecting the liquidity and market value of collateral.

The Group uses formalized internal credit ratings to monitor credit risk.

The credit rating of a corporate counterparty includes an assessment of its financial position (profit margin, liquidity, coverage and turnover ratios, etc.) using a scoring system, and its business risk tolerance (quality of management, ownership structure, industry competition, dependence on vendors and customers, etc.). Each counterparty is assigned a credit rating depending on its total score based on which the Credit Committee, the Asset and Liability Management Committee or the Management Board (depending on the loan amount under consideration) approve or reject the transaction and its terms.

For the purpose of determining risks associated with the SME portfolio, the Group analyzes the counterparty's financial position (profit margins, debt burden, extent to which loan repayments are covered by business revenues, etc.) and its business risk tolerance (track record, ownership structure, credit history quality, etc.). The credit rating for an individual counterparty is assigned based on its total score.

The credit rating for a credit institution is determined on the basis of assessing its solvency, asset quality, operations efficiency and business activity. Limits for counterparty banks depend on their current liquidity and equity position. Final decisions on the amount of investments and interbank loans are taken on a collegial basis by the Asset and Liability Management Committee or the Management Board.

The credit rating of an insurance company is determined by assessing its financial position, including financial ratios and business risk tolerance (degree of regional and industry risk diversification, specialization of the company, business history, management quality, ownership structure, etc.).

For the purposes of credit risk assessment, loans to individuals are classified into collateralized loans (mortgage and car loans) and other consumer loans.

Retail loan applications are reviewed by specialists of the Retail Banking Department using scoring models and procedures of loan application data verification developed in cooperation with the Risk Management Department.

The analysis and evaluation of counterparties' financial position are conducted by those departments that are involved in lending as well as by the Risk Management Department.

The Group's credit departments review outstanding loans by maturity and follow up on past due balances. Management is provided with the ageing and other information on credit risk as disclosed in Note 11.

The credit risk for credit related contingencies is defined as the possibility of sustaining a loss as a result of the other party to a financial instrument failing to perform in accordance with the terms of the contract. The Group applies the same credit policies to contingencies as it does for financial instruments recognized in the consolidated statement of financial position through approving credit risk limits and monitoring procedures.

32 Financial risk management (continued)

The table below shows the analysis of credit quality by class of corporate loans and other financial assets before the allowance for impairment as at 31 December 2014:

	Neither overdue nor impaired			Impaired	Total
	Group 1	Group 2	Group 3		
Due from banks	1,189,970	–	–	–	1,189,970
Loans to corporate entities	16,151,125	32,761,734	8,266,920	28,615,871	85,795,650
Corporate loans	13,534,883	27,639,914	7,465,582	27,128,760	75,769,139
Loans to SME	2,412,936	3,721,400	801,338	1,487,111	8,422,785
Purchase and resale agreements ("reverse repo")	203,306	1,400,420	–	–	1,603,726
Debt securities	11,625,337	5,891,003	9,686,381	23,018	27,225,739
Financial instruments at fair value through profit or loss	11,625,337	5,891,003	6,130,805	–	23,647,145
Investments available for sale	–	–	3,555,576	–	3,555,576
Held to maturity	–	–	–	23,018	23,018
Securities lent	1,477,238	–	–	–	1,477,238
Total	30,443,670	38,652,737	17,953,301	28,638,889	115,688,597

Credit quality by financial instruments that are neither overdue nor impaired is presented according to the following categories:

- ▶ *Loans to corporate entities:*
 - ▶ Group 1 – loans to borrowers whose financial position is rated as "good";
 - ▶ Group 2 – loans to borrowers whose financial position is rated as "average";
 - ▶ Group 3 – loans to borrowers whose financial position is rated as "below average", but the loans included in this category are not individually impaired;
- ▶ *Due from banks:*
 - ▶ Group 1 – financial instruments with the provision ratio of 0%;
 - ▶ Group 2 – financial instruments with the provision ratio from 0% to 2%;
 - ▶ Group 3 – financial instruments with the provision ratio of more than 2%;
- ▶ *Financial instruments at fair value through profit or loss and available-for-sale financial instruments:*
 - ▶ Group 1 – financial instruments, issuers of which have international ratings of not less than "B3" ("B-");
 - ▶ Group 2 – financial instruments, issuers of which have international ratings of not less than "CCC" ("Caa") and which are traded in the over-the-counter market;
 - ▶ Group 3 – non-impaired financial instruments, issuers of which have no international ratings, as measured according to the model.

The concept of impaired financial assets is provided in Note 4.

As at 31 December 2014 and 2013, there were no non-impaired overdue loans to corporate entities in the Bank's loan portfolio.

32 Financial risk management (continued)

The table below shows the analysis of credit quality by class of loans to individuals before the allowance for impairment as at 31 December 2014.

	Neither impaired nor overdue	Overdue but not impaired	Impaired loans	Total
Loans to individuals				
Consumer loans	13,543,532	1,154,849	2,474,079	17,172,460
Mortgage loans	5,661,584	179,342	139,475	5,980,401
Car loans	2,332,988	138,342	201,864	2,673,194
Total	21,538,104	1,472,533	2,815,418	25,826,055

Impaired loans to individuals are loans overdue 181 days or more.

The table below shows the analysis of credit quality by class of corporate loans and other financial assets before the allowance for impairment as at 31 December 2013:

	Neither overdue nor impaired				
	Group 1	Group 2	Group 3	Impaired	Total
Due from banks	1,037,614	–	–	–	1,037,614
Loans to corporate entities	7,601,598	37,032,890	5,772,208	18,953,025	69,359,721
Corporate loans	5,336,604	32,200,499	4,981,232	17,338,393	59,856,728
Loans to SME	2,264,994	4,473,579	790,976	1,614,632	9,144,181
Purchase and resale agreements ("reverse repo")	–	358,812	–	–	358,812
Debt securities	6,347,659	1,443,230	7,504,820	28,572	15,324,281
Financial instruments at fair value through profit or loss	6,347,659	1,443,230	4,193,058	–	11,983,947
Investments available for sale	–	–	3,311,762	–	3,311,762
Held to maturity	–	–	–	28,572	28,572
Total	14,986,871	38,476,120	13,277,028	18,981,597	85,721,616

The table below shows the analysis of credit quality by class of loans to individuals before the allowance for impairment as at 31 December 2013.

	Neither impaired nor overdue	Overdue but not impaired	Impaired loans	Total
Loans to individuals				
Consumer loans	15,158,721	1,171,996	1,503,826	17,834,543
Mortgage loans	5,015,091	92,075	92,272	5,199,438
Car loans	2,635,614	127,785	121,060	2,884,459
Total	22,809,426	1,391,856	1,717,158	25,918,440

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk occurs where the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions that liquidity terms on assets and liabilities completely match since business transactions are often of different terms and different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains necessary liquidity levels with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

32 Financial risk management (continued)

The Liquidity Policy is approved by the Board of Directors.

Operational information on liquidity risk (gap analysis) is provided to management at least once a month. For management accounting purposes, the Risk Management Department determines the liquidity risk as of the first day of every month. The objective is to determine a net liquidity gap and a negative uncovered liquidity gap and compare the gaps with available funding sources.

As a part of its liquidity evaluation and management process, the Group estimates the nature of its liabilities and the expected timing of their withdrawals, performs stress testing and evaluates its ability to refinance debt from customer and financial markets.

The liquidity position is considered to be at the normal level if the negative liquidity gap is lower than, or comparable to, the possible amount of funding from the financial markets (acceptable negative liquidity gap). The liquidity position is critical if a negative liquidity gap exceeds the maximum possible funding from financial markets.

The Treasury monitors limits opened by counterparty banks in order to evaluate possibilities for attracting additional resources from the financial markets.

The liquidity management comprises maintaining the appropriate level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. Control over the liquidity position and the implementation of liquidity management decisions is the responsibility of the Asset and Liability Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. These ratios are:

- ▶ Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand.
- ▶ Current liquidity ratio (N3), which is calculated as the ratio 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 equity and liabilities maturing after one year.

The Treasury receives information about financial assets and liabilities and it is responsible for monitoring of the daily liquidity position. The Department for Active Operations in the Securities Market provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The following tables show financial liabilities by remaining contractual maturities as at 31 December 2014 and 2013. The amounts disclosed in the tables are the contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the consolidated statement of financial position.

When the amount payable is not fixed, it is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

All outstanding liabilities under financial guarantees relate to the earliest period in which guarantees could be called.

32 Financial risk management (continued)

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	7,802,839	5,445,438	–	–	13,248,277
Due to banks	7,779,448	1,375,902	262,890	4,438,887	13,857,127
Net settled derivatives	14,515	–	–	–	14,515
Customer accounts	20,294,026	40,154,860	31,502,616	2,784,053	94,735,555
Debt securities issued	336,971	11,423,060	9,840,947	58,283	21,659,261
Eurobonds issued	–	216,595	4,154,683	–	4,371,278
Other borrowings	11,566	34,097	302,223	1,141,315	1,489,201
Subordinated borrowings	–	129,179	131,321	7,622,860	7,883,360
Obligations to repurchase interests in a subsidiary	–	–	–	114,153	114,153
Other financial liabilities	307,920	8,391	147,108	7,476	470,895
Total financial liabilities	36,547,285	58,787,522	46,341,788	16,167,027	157,843,622
Total commitments and contingencies	16,358,963	221,795	100,793	326,139	17,007,690

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	3,345,801	3,209,921	–	–	6,555,722
Due to banks	2,886,795	522,676	489,234	2,431,617	6,330,322
Net settled derivatives	4,491	–	–	–	4,491
Customer accounts	19,701,303	28,220,848	18,388,373	2,995,048	69,305,572
Debt securities issued	1,703,603	13,113,682	10,703,486	2,204,122	27,724,893
Subordinated borrowings	–	129,180	131,320	3,745,788	4,006,288
Obligations to repurchase interests in a subsidiary	–	–	–	114,153	114,153
Other financial liabilities	408,495	151,906	7	3,245	563,653
Total financial liabilities	28,050,488	45,348,213	29,712,420	11,493,973	114,605,094
Total commitments and contingencies	15,754,658	336,713	118,162	533,799	16,743,332

As at 31 December 2014, commitments and contingencies comprise credit facilities in the amount of RUB 6,643,796 thousand (31 December 2013: RUB 11,419,414 thousand) which were classified as "On demand and less than 1 month", as the customer is entitled to request a tranche from the Bank at any time. The Bank may refuse to extend a loan in case the borrower's financial position deteriorates.

In accordance with the Russian legislation, individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, with a loss of accrued interest income. These deposits are presented by contractual maturity dates. As at 31 December 2014, term deposits of individuals maturing in more than one month amount to RUB 50,896,442 thousand (31 December 2013: RUB 47,104,945 thousand).

32 Financial risk management (continued)

Management believes that in spite of a substantial portion of customer accounts being on demand (current/settlement accounts), diversification of these deposits by number and type, and the past experience of the Group, indicate that these deposits provide a long-term and stable source of funding. According to the Group's estimates, as at 31 December 2014 and 2013, withdrawals from "On demand and less than 1 year" customer accounts will occur in the following periods:

	31 December 2014	31 December 2013
On demand and less than 1 year	12,746,022	11,702,248
Over 1 year	7,548,004	7,999,055

In accordance with the terms of the issue, the holders of the Group's debt securities have right to present them for redemption on certain dates before final maturity. Undiscounted cash flows for these financial instruments are therefore presented based on the earliest offer dates.

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitments because the Group does not generally expect third parties to draw funds under the commitments. The total outstanding contractual commitments to extend credit do not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded. Information on the amounts of commitments and contingencies by type is provided in Note 34.

The following tables show assets and liabilities by contractual maturity dates as at 31 December 2014 and 31 December 2013. Due to the fact that as at 31 December 2014 and 31 December 2013 substantially all the financial instruments are fixed rate contracts, contractual maturity dates also represent the interest rate repricing dates.

In the tables below financial assets and liabilities are presented on a discounted basis according to their contractual maturities, including deposits of individuals. Management expects that the cash flows from certain financial assets and liabilities may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows dates from these financial assets and liabilities may differ from contractual dates. The following financial assets and liabilities are presented based on expected cash flows.

Financial instruments at fair value through profit or loss comprise:

- ▶ Debt securities included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 16,971,520 thousand (31 December 2013: RUB 7,170,542 thousand);
- ▶ Equity securities (shares) included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 1,881 thousand (31 December 2013: RUB 103,068 thousand).

Available-for-sale investments comprise securities included in the Lombard List of the Central Bank of the Russian Federation or rated not lower than BBB in the amount of RUB 51,492 thousand (31 December 2013: RUB 2,181,861 thousand).

These securities can be used to settle financial liabilities and are included in the "On demand and less than 1 month" category.

32 Financial risk management (continued)

The table below summarizes the analysis of the Group's liquidity position as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	16,412,809	—	—	—	—	16,412,809
Mandatory cash balances with the CBR	—	—	—	—	1,067,447	1,067,447
Due from banks	132,069	706,791	—	351,110	—	1,189,970
Financial instruments at fair value through profit or loss	24,370,555	—	—	—	11,670	24,382,225
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	7,931,456	—	—	—	—	7,931,456
Securities lent	—	1,477,238	—	—	—	1,477,238
Loans to customers	5,272,484	16,458,242	28,613,629	44,619,250	1,760,212	96,723,817
Investments available for sale	4,912,886	—	—	—	—	4,912,886
Other financial assets	479,412	1,748,561	60,045	123,418	54,764	2,466,200
Total financial assets	59,511,671	20,390,832	28,673,674	45,093,778	2,894,093	156,564,048
Financial liabilities						
Due to the CBR	7,670,614	5,333,996	—	—	—	13,004,610
Due to banks	7,654,078	1,154,352	823	3,129,503	—	11,938,756
Customer accounts	20,231,813	38,419,889	29,137,438	2,371,186	—	90,160,326
Debt securities issued	335,498	5,452,724	2,425,934	12,185,903	—	20,400,059
Eurobonds issued	—	—	—	3,820,534	—	3,820,534
Other borrowings	4,520	—	260,861	930,301	—	1,195,682
Subordinated borrowings	—	—	—	6,600,369	—	6,600,369
Other financial liabilities	307,920	8,391	147,108	1,878	5,598	470,895
Total financial liabilities	36,204,443	50,369,352	31,972,164	29,039,674	5,598	147,591,231
Net gap	23,307,228	(29,978,520)	(3,298,490)	16,054,104	2,888,495	8,972,817
Cumulative gap at 31 December 2014	23,307,228	(6,671,292)	(9,969,782)	6,084,322	8,972,817	—

32 Financial risk management (continued)

The table below summarizes the analysis of the Group’s liquidity position as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity and overdue	Total
Financial assets						
Cash and cash equivalents	8,826,053	–	–	–	–	8,826,053
Mandatory cash balances with the CBR	–	–	–	–	871,951	871,951
Due from banks	98,551	39,131	899,932	–	–	1,037,614
Financial instruments at fair value through profit or loss	12,396,426	–	–	–	–	12,396,426
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	4,326,273	–	–	–	–	4,326,273
Loans to customers	3,910,602	13,712,590	17,254,376	45,545,196	1,789,919	82,212,683
Investments available for sale	4,940,894	–	–	–	–	4,940,894
Investments available for sale, pledged as collateral under sale and repurchase agreements	1,863,775	–	–	–	–	1,863,775
Other financial assets	914,595	968,531	27,705	167,359	23,083	2,101,273
Total financial assets	37,277,169	14,720,252	18,182,013	45,712,555	2,684,953	118,576,942
Financial liabilities						
Due to the CBR	3,326,880	3,178,700	–	–	–	6,505,580
Due to banks	2,869,233	451,271	414,398	2,061,251	–	5,796,153
Customer accounts	19,667,371	27,471,930	17,106,530	2,526,485	–	66,772,316
Debt securities issued	1,696,439	7,141,426	10,021,038	7,319,795	–	26,178,698
Subordinated borrowings	–	–	–	3,099,996	–	3,099,996
Other financial liabilities	408,495	151,906	7	3,245	–	563,653
Total financial liabilities	27,968,418	38,395,233	27,541,973	15,010,772	–	108,916,396
Net gap	9,308,751	(23,674,981)	(9,359,960)	30,701,783	2,684,953	9,660,546
Cumulative gap at 31 December 2013	9,308,751	(14,366,230)	(23,726,190)	6,975,593	9,660,546	–

The liquidity gap within the period of 12 months is most influenced by:

- ▶ Deposits of individuals – 45% (31 December 2013: 48%).
- ▶ Deposits of corporate entities – 19% (31 December 2013: 8%).
- ▶ Interbank borrowings – 18% (31 December 2013: 11%).

Deposits of individuals are presented by contractual maturity dates. Management believes that regardless of the fact that a substantial portion of deposits of individuals is classified as “From 1 to 6 months” and “From 6 to 12 months”, most of them will be extended. Diversification of these deposits by number and type, and the past experience (accumulated statistics) of the Group, indicate that these amounts provide a long-term and stable source of financing.

The Bank regularly assesses the amount of security deposits on the customers’ settlement accounts and treats them as a stable source of financing. As at 31 December 2014 the minimum amount of security deposits amounts to RUB 5.5 billion (31 December 2013: RUB 5.9 billion).

32 Financial risk management (continued)

Debt securities issued are considered by the period until the next offer. The Group has debt securities issued in the amount of RUB 24 billion (31 December 2013: RUB 24 billion) maturing within 12 months after the reporting date. In assessing the Group's liabilities, management expects that more than RUB 6 billion (31 December 2013: RUB 5 billion) may not be redeemed under the offers. The above statement is based on the statistics of bond issue offers, starting from 2011, adjusted for current market conditions. On average, about 56% of the issue is offered (variance of 7%-87%), however, around 80% of repurchased bonds return to the market within three months after the offer (variance of 59%-100%). All of the Group's bonds denominated in rubles are included in the Lombard List of the Central Bank of the Russian Federation, therefore, they are in high demand from investors.

Management believes that the Group will be able to refinance its debt. During 2014, the Group placed one new bond issue in the amount of RUB 3 billion, additional issues under two existing bond issues totaling RUB 2 billion and one Eurobond issue in the amount of USD 70 million, held offers on five bond issues totaling RUB 13 billion (all repurchased bonds returned to the market), and repaid two bond issues totaling RUB 4 billion.

Deposits of legal entities maturing within 12 months after the reporting date amount to RUB 22.5 billion (31 December 2013: RUB 7.9 billion). Taking into account that the amount of the deposits increased during 2014, management does not expect significant cash outflows from deposit accounts.

Management may refinance existing liabilities by using open credit facilities with other banks, raising funds collateralized by securities portfolio and borrowing from the Central Bank of the Russian Federation:

- ▶ Total credit lines opened with Russian counterparty banks are estimated at RUB 14.2 billion (31 December 2013: RUB 16.1 billion).
- ▶ Securities included in the Lombard List of the Central Bank of the Russian Federation are estimated at RUB 17 billion (31 December 2013: RUB 8.3 billion).

Apart from providing a liquidity cushion, the Group takes the following steps to secure funding, maintain current liquidity level and ensure timely fulfillment of its liabilities:

- ▶ The loan portfolio eligible to be used as collateral for borrowings from the Central Bank of the Russian Federation is increased.
- ▶ Three bond issues totaling RUB 7 billion, two additional issues under the existing bond issues totaling RUB 2 billion have been registered. These funds may be used as intended, if necessary.

In addition, management of the Group believes, based on discussion with regional government representatives and written confirmations received from them in 2011, that the Bank and the Group will get sufficient support, if needed, from the Government of the Republic of Tatarstan and other authorities. The Government of the Republic of Tatarstan made an injection of RUB 2 billion in the Bank's share capital in 2008 and granted a subordinated loan of RUB 2.1 billion in 2010. Management expects that the Government of the Republic of Tatarstan will continue to support the Bank and the Group.

Thus, management of the Group concludes that the Group will be able to maintain a sufficient liquidity level during the next 12 months.

Market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise interest rate risk, currency risk and other price risks. Market risk arises from open positions for interest-bearing, currency and equity financial instruments exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but interest margin may decrease or losses may be incurred in the event of unexpected movements in interest rates.

For management accounting purposes, the Risk Management Department determines the interest rate risk at the end of each month.

32 Financial risk management (continued)

The interest rate risk management functions of the Management Board include:

- ▶ Approval of interest rates for various types of transactions;
- ▶ Management decisions on asset and liability portfolios in relation to their maturity or interest rate structure.

The Risk Management Department calculates interest rate risk on a monthly basis using the following three methods:

- ▶ GAP analysis;
- ▶ Duration method; this method applies certain weighting coefficients, which are based on duration of assets and liabilities, to each time interval where these financial instruments are categorized depending on remaining maturity;
- ▶ Assessment of volatility of interest rates for interest-earning assets and liabilities. Calculation is based on statistical data on interest rates for the last three years.

Currency risk. The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk resulting from changes in foreign currency exchange rates.

Management sets limits on the level of exposure by currency and in total for both as of the end of each day and intra-day positions, which are monitored daily on the basis of statutory accounts data.

The Group does not take into account its subsidiaries in calculation of currency risk since the amounts of foreign currency operations of subsidiaries are not significant and thus they are not exposed to significant currency risk.

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2014:

	RUB	USD	EUR	Other currencies	Precious metals	Total
Financial assets						
Cash and cash equivalents	12,067,207	2,003,234	2,326,529	1,826	14,013	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	1,067,447	—	—	—	—	1,067,447
Due from banks	1,189,126	844	—	—	—	1,189,970
Financial instruments at fair value through profit or loss	18,470,853	5,911,372	—	—	—	24,382,225
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	7,931,456	—	—	—	—	7,931,456
Securities lent	1,477,238	—	—	—	—	1,477,238
Loans to customers	92,223,376	4,024,823	475,618	—	—	96,723,817
Investments available for sale	4,886,645	—	—	26,241	—	4,912,886
Other financial assets	2,449,235	8,660	547	7,758	—	2,466,200
Total financial assets	141,762,583	11,948,933	2,802,694	35,825	14,013	156,564,048
Financial liabilities						
Due to the Central Bank of the Russian Federation	13,004,610	—	—	—	—	13,004,610
Due to banks	8,252,933	1,187,508	2,498,315	—	—	11,938,756
Customer accounts	81,489,914	6,226,089	2,223,837	203	220,283	90,160,326
Debt securities issued	20,213,528	145,799	40,732	—	—	20,400,059
Eurobonds issued	—	3,820,534	—	—	—	3,820,534
Other borrowings	1,195,682	—	—	—	—	1,195,682
Subordinated borrowings	3,099,990	3,500,379	—	—	—	6,600,369
Other financial liabilities	458,327	9,237	3,299	—	32	470,895
Total financial liabilities	127,714,984	14,889,546	4,766,183	203	220,315	147,591,231
Net balance sheet position	14,047,599	(2,940,613)	(1,963,489)	35,622	(206,302)	8,972,817
Effect of derivatives	(4,752,169)	2,419,111	2,084,452	—	—	(248,606)
Net position	9,295,430	(521,502)	120,963	35,622	(206,302)	8,724,211

32 Financial risk management (continued)

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2013:

	RUB	USD	EUR	Other currencies	Precious metals	Total
Financial assets						
Cash and cash equivalents	7,764,162	435,646	615,505	1,720	9,020	8,826,053
Mandatory cash balances with the Central Bank of the Russian Federation	871,951	—	—	—	—	871,951
Due from banks	146,847	890,767	—	—	—	1,037,614
Financial instruments at fair value through profit or loss	10,953,196	1,443,230	—	—	—	12,396,426
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	4,326,273	—	—	—	—	4,326,273
Loans to customers	82,022,097	180,154	10,432	—	—	82,212,683
Investments available for sale	4,940,894	—	—	—	—	4,940,894
Investments available for sale, pledged as collateral under sale and repurchase agreements	1,863,775	—	—	—	—	1,863,775
Other financial assets	2,089,932	10,883	347	—	111	2,101,273
Total financial assets	114,979,127	2,960,680	626,284	1,720	9,131	118,576,942
Financial liabilities						
Due to the Central Bank of the Russian Federation	6,505,580	—	—	—	—	6,505,580
Due to banks	4,563,730	527,486	704,937	—	—	5,796,153
Customer accounts	63,006,176	2,670,807	926,011	—	169,322	66,772,316
Debt securities issued	23,410,721	2,767,977	—	—	—	26,178,698
Subordinated borrowings	3,099,996	—	—	—	—	3,099,996
Other financial liabilities	555,061	7,210	156	—	1,226	563,653
Total financial liabilities	101,141,264	5,973,480	1,631,104	—	170,548	108,916,396
Net balance sheet position	13,837,863	(3,012,800)	(1,004,820)	1,720	(161,417)	9,660,546
Effect of derivatives	(3,983,848)	2,945,548	876,671	—	—	(161,629)
Net position	9,854,015	(67,252)	(128,149)	1,720	(161,417)	9,498,917

Other price risks. Other price risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all similar instruments traded in the market. Other price risks arise when the Group takes a long or short position in a financial instrument.

Other price risk is managed in the range of approved limits:

- ▶ General limit of open position for instruments exposed to price risk (within limits on investments in securities approved by the Management Board);
- ▶ Limits of open position for individual financial instruments (limits on issuers of debt securities).

Approved limits are reviewed following changes in amounts of assets and liabilities, financial and liquidity positions, risk assessment of investments and changes in the legislation of the Russian Federation.

Value at Risk (VaR) estimates. The Group uses Value at Risk method (VaR) to measure its exposures to market risk.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Group is based on a 99% confidence level.

32 Financial risk management (continued)

Although VaR is a valuable tool in measuring market risk exposures, it has a number of the following limitations, especially in less liquid markets:

- ▶ The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extraordinary nature.
- ▶ A holding period assumes that all positions can be liquidated or hedged within that period. This is a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- ▶ The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate.
- ▶ VaR is calculated on the end-of-day balances and does not reflect exposures that may arise on positions during the trading day.
- ▶ The VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

For management accounting purposes, *currency risk assessed under VaR* is estimated by the Risk Management Department at the end of each month based on the Bank's open currency positions (OCP) recorded in statutory accounts. OCP is the difference between the amounts of assets and liabilities denominated in foreign currencies. The forecast horizon for calculation of currency risk is twenty days. The statistical calculations cover a 6-month period (not less than 120 trading days) using the variation-covariation method. VaR estimates are based on Russian statutory financial statements, therefore they do not necessarily reflect the Group's currency risk exposures under IFRS.

Foreign currency risk VaR amounts with a 20-day forecast horizon as at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
VaR amount	8,939	7,644

For management accounting purposes, *market risk assessed under VaR* is determined on the basis of 1-day and 20-day forecast horizons. The statistical calculations cover a 6-month period (not less than 120 trading days) using the variation-covariation method. In 2013 and 2014, market risk VaR calculations included the portfolio of subsidiary IC TFB-Finance LLC.

Market risk for each time horizon includes:

- ▶ Calculation of equity risk for shares using the VaR method;
- ▶ Calculation of interest rate risk for liquid bonds using the VaR method, taking into account the correlation between instruments and assuming that the correlation for the portfolio of Russian Government Federal Bonds is equal to 1;
- ▶ Sensitivity analysis for illiquid bonds.

The potential impact of changes in the market risk as at 31 December 2014 and 2013 on profit or loss is shown in the table below:

	31 December 2014	31 December 2013
1-day equity risk using the VaR method	3,810	66,331
1-day interest rate risk	315,192	88,899
20-day equity risk using the VaR method	16,950	270,791
20-day interest rate risk	732,767	118,077

	Change in interest rate, %		31 December 2014	31 December 2013
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Sensitivity of income from illiquid bond portfolio to interest rate risk	+3.99%	+1.82%	(434,548)	(118,408)
	-3.99%	-1.82%	434,548	118,408

32 Financial risk management (continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities as at 31 December 2014 is set out below:

	Republic of Tatarstan	Other Russian regions	Other countries	Total
Financial assets				
Cash and cash equivalents	8,867,311	5,749,802	1,795,696	16,412,809
Mandatory cash balances with the Central Bank of the Russian Federation	1,049,555	17,892	—	1,067,447
Due from banks	707,370	482,600	—	1,189,970
Financial instruments at fair value through profit or loss	7,497,842	10,973,011	5,911,372	24,382,225
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	40,921	7,890,535	—	7,931,456
Securities lent	—	—	1,477,238	1,477,238
Loans to customers	70,665,698	22,270,861	3,787,258	96,723,817
Investments available for sale	4,835,153	51,492	26,241	4,912,886
Other financial assets	2,150,369	315,705	126	2,466,200
Total financial assets	95,814,219	47,751,898	12,997,931	156,564,048
Financial liabilities				
Due to the Central Bank of the Russian Federation	—	13,004,610	—	13,004,610
Due to banks	5,697,433	2,709,805	3,531,518	11,938,756
Customer accounts	58,484,015	31,258,899	417,412	90,160,326
Debt securities issued	300,201	20,099,858	—	20,400,059
Eurobonds issued	—	—	3,820,534	3,820,534
Other borrowings	934,821	260,861	—	1,195,682
Subordinated borrowings	2,099,995	999,995	3,500,379	6,600,369
Other financial liabilities	431,313	34,543	5,039	470,895
Total financial liabilities	67,947,778	68,368,571	11,274,882	147,591,231
Net position	27,866,441	(20,616,673)	1,723,049	8,972,817
Total commitments and contingencies	7,074,887	9,855,576	77,227	17,007,690

32 Financial risk management (continued)

The geographical concentration of the Group's financial assets and liabilities as at 31 December 2013 is set out below:

	Republic of Tatarstan	Other Russian regions	Other countries	Total
Financial assets				
Cash and cash equivalents	5,874,744	2,417,969	533,340	8,826,053
Mandatory cash balances with the Central Bank of the Russian Federation	871,951	—	—	871,951
Due from banks	1,000	1,030,068	6,546	1,037,614
Financial instruments at fair value through profit or loss	4,632,585	6,320,611	1,443,230	12,396,426
Financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	237,807	4,088,466	—	4,326,273
Loans to customers	63,281,877	18,895,400	35,406	82,212,683
Investments available for sale	4,622,808	318,086	—	4,940,894
Investments available for sale, pledged as collateral under sale and repurchase agreements	—	1,863,775	—	1,863,775
Other financial assets	1,812,866	281,414	6,993	2,101,273
Total financial assets	81,335,638	35,215,789	2,025,515	118,576,942
Financial liabilities				
Due to the Central Bank of the Russian Federation	—	6,505,580	—	6,505,580
Due to banks	26,955	4,539,954	1,229,244	5,796,153
Customer accounts	53,128,644	13,270,864	372,808	66,772,316
Debt securities issued	235,835	25,942,863	—	26,178,698
Subordinated borrowings	2,100,002	999,994	—	3,099,996
Other financial liabilities	518,109	43,389	2,155	563,653
Total financial liabilities	56,009,545	51,302,644	1,604,207	108,916,396
Net position	25,326,093	(16,086,855)	421,308	9,660,546
Total commitments and contingencies	10,827,085	5,916,247	—	16,743,332

33 Capital management

The Group defines as capital those items that are defined in accordance with the legislation of the Russian Federation as capital (equity) of credit institutions.

The Group's objectives when managing capital are: (i) to comply with the capital requirements set by the CBR; (ii) to ensure the ability to continue as a going concern, (iii) to maximize the return on risk-adjusted capital, and (iv) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and Amendment to the Capital Accord to incorporate market risks (updated in November 2005). Compliance with the capital adequacy ratio set by the CBR is monitored monthly and reports outlining the calculation are reviewed and signed by the Chairman of the Management Board and Chief Accountant of the Bank.

The Group and the Bank are also subject to minimum capital requirements in accordance with the Basel Accord.

The capital adequacy ratio under the Basel Accord is calculated by the Reporting Department. Forecast calculation of the capital adequacy ratio is performed at least twice a year.

33 Capital management (continued)

The table below shows the components of the Group's capital calculated in accordance with the Basel Capital Accord as at 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Tier 1 capital		
Share capital	13,111,618	13,111,618
Accumulated deficit	(3,029,524)	(1,467,592)
Total tier 1 capital	10,082,094	11,644,026
Tier 2 capital		
Revaluation reserve for buildings	196,208	200,501
Revaluation reserve for investments available for sale	(182,700)	78,582
Subordinated borrowings	5,041,047	1,944,995
Total tier 2 capital	5,054,555	2,224,078
Tier 3 capital		
Subordinated borrowings up to 250% of tier 1 capital required for covering market risks	1,454,322	–
Total tier 3 capital	1,454,322	–
Total capital	16,590,971	13,868,104

The table below shows the Group's capital adequacy ratio as at 31 December 2014 and 31 December 2013 calculated in accordance with the Basel Capital Accord as adjusted for the non-controlling interest of mutual funds and subsidiaries.

	2014	2013
Basic capital adequacy ratio (tier 1 capital)	7.38%	10.67%
Total capital adequacy ratio (tier 1, tier 2 and tier 3 capital)	12.14%	12.71%

Compliance with covenants. The Group must comply with certain covenants related primarily to issued Eurobonds. As at 31 December 2014, the Bank had obligations to maintain the total capital adequacy ratio at the level of not lower than 11% according to the Basel Accord. Failure to meet this covenant may have negative consequences for the Group, including early repayment of the borrowings.

During 2013 and 2014, the Group and the Bank complied with all externally imposed capital requirements.

34 Commitments and contingencies

Legal proceedings. From time to time, in the ordinary course of business the Group is subject to legal actions. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group (31 December 2013: will not have a material adverse effect on the financial position or the results of future operations of the Group).

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by tax authorities. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities at any time in the future.

34 Commitments and contingencies (continued)

The calculation of tax liabilities is subject to review and detailed investigation by the tax authorities that have the power to collect taxes and impose fines and penalties. The field audits of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year when the tax authorities made the decision to conduct the tax audit. Under certain circumstances, audits may cover longer periods.

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows Russian tax authorities to adjust the tax base and impose additional income tax and, in certain cases, VAT in respect of all controlled transactions if the transaction price differs from the market price. Controlled transactions may include transactions with related parties and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities and derivative financial instruments.

Given that the transfer pricing rules came into force as recently as 2012, there remains uncertainty as to their practical application together with the application of other tax rules established by other chapters of the Tax Code of the Russian Federation.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and application of tax legislation, and in performing tax audits and assessing additional taxes. Consequently, the tax authorities may challenge the transactions and operations of the Group which have not been challenged before. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

These circumstances give rise to tax risks in the Russian Federation that are substantially more significant than similar risks in other countries. Management believes that tax liabilities were fully disclosed in these consolidated financial statements based on management's interpretation of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of tax legislation by various regulatory authorities could differ from management's opinion and their effect on the financial position of the Group, if the regulatory authorities were successful in enforcing their interpretations, could be significant.

Based on the available information, no provision for potential tax liabilities was made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such liabilities.

In 2015, the Tax Code of the Russian Federation was amended with the provisions introducing the concepts "controlled foreign company", "tax resident of the Russian Federation" and "person who has the actual right to income." Currently, it is impossible to accurately assess the potential tax effect of these changes for the Group. At the same time, the changes have no actual effect on the Group's financial result for 2014, since any additional tax liabilities arising due to the adoption of the law (if any) will be recorded in subsequent reporting periods.

Capital expenditure commitments. As at 31 December 2014, the Group has contractual capital expenditure commitments, including commitments to purchase equipment, in the total amount of RUB 11,123 thousand (31 December 2013: RUB 18,212 thousand).

Operating lease commitments. Where the Group acts as a lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2014	31 December 2013
Less than 1 year	264,572	293,166
From 1 to 5 years	301,635	486,765
More than 5 years	24,504	47,034
Total operating lease commitments	590,711	826,965

As at 31 December 2014, total future minimum payments receivable under non-cancellable operating leases amount to RUB 111,264 thousand (31 December 2013: RUB 4,585 thousand).

34 Commitments and contingencies (continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of management's authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to commitments to extend credit, the Group is potentially exposed to the risk of losses in the amount equal to the total unused commitments. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers meeting certain creditworthiness requirements. The Group monitors the term to maturity of credit related commitments, as long-term commitments have a greater degree of credit risk than short-term commitments.

The total outstanding contractual amount of undrawn credit facilities and guarantees does not necessarily represent future cash requirements, as these liabilities may expire or terminate without being funded.

Credit related commitments comprise:

	31 December 2014	31 December 2013
Undrawn credit facilities	6,643,796	11,419,414
Guarantees issued	9,762,060	4,478,741
Total credit related commitments	16,405,856	15,898,155

Credit related commitments are denominated in the following currencies:

	31 December 2014	31 December 2013
RUB	15,926,257	15,548,018
USD	208,757	270,051
EUR	270,842	80,086
Total credit related commitments	16,405,856	15,898,155

Transferred financial assets not derecognized in their entirety and pledged assets. The following table provides a summary of financial assets which have been transferred (received) in such a way that part or all of the transferred financial assets do not qualify for derecognition (recognition):

	31 December 2014		31 December 2013	
	Pledged assets	Related liability	Pledged assets	Related liability
Securities pledged as collateral under sale and repurchase agreements with other banks				
- Financial instruments at fair value through profit or loss	7,931,456	6,500,966	4,326,273	3,498,421
- Investments available for sale	—	—	1,863,775	1,575,398
Securities received as collateral under reverse repurchase agreements with other banks				
- Financial instruments at fair value through profit or loss	772,256	545,623	—	—
Securities received as collateral under reverse repurchase agreements with customers				
- Financial instruments at fair value through profit or loss	1,678,244	1,603,726	421,607	358,812
Assets provided as collateral for State Corporation "Deposit Insurance Agency"				
- Credit claims	2,142,608	—	—	—
- Financial instruments at fair value through profit or loss	5,078,681	—	—	—
Total	17,603,245	8,650,315	6,611,655	5,432,631

34 Commitments and contingencies (continued)

Under agreements, the counterparty may sell or repledge securities sold under sale and repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the agreement.

Likewise, the Group may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities. In this case, the counterparty retains almost all risks and rewards of ownership. Accordingly, the Group does not recognize such securities and records a separate asset for any possible collateral provided as cash.

Since 27 May 2014, the Bank of Russia together with State Corporation "Deposit Insurance Agency" has been implementing bankruptcy prevention measures for JSCB BTA-Kazan (OJSC). The Bank was appointed as a turnaround manager upon a proposal by the government of the Republic of Tatarstan. To secure the obligations of PJSC "Timer Bank" to State Corporation "Deposit Insurance Agency", the Bank pledged receivables under loan agreements and the financial instruments it owned totaling RUB 7,221,289 thousand (31 December 2013: nil).

35 Fair value measurement

The estimated fair value of financial instruments is determined by the Group based on the available market information (if any) and appropriate valuation techniques. Professional judgment is applied to interpret market information for the purpose of determining fair value. The economy of the Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair value of financial instruments. Management uses all available market information in determining the fair value of financial instruments.

Financial instruments at fair value through profit or loss and investments available for sale (other than unquoted securities for which it is impracticable to determine fair value) are carried in the consolidated statement of financial position at their fair value. The fair value is determined based on market prices except for those securities for which no external independent market price quotations are available.

Valuation methods for unquoted securities and equity securities not traded in the active market required certain assumptions that are not supported by observable market data. An active market is a market which satisfies the following conditions: items traded in the market are homogenous; willing sellers and buyers are generally available at any time; information on prices is publicly available. Indicators of abnormal market conditions (i.e. of an inactive market) can be large spreads between the purchase price and the selling price or a relatively small number of bids.

The estimated fair value of other financial instruments is determined based on the discounted future cash flows expected to be received or paid.

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-based rate for a similar instrument at the reporting date.

The fair value of floating interest rate instruments is generally equal to their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated cash flows, discounted at current lending market interest rates for new instruments with similar credit risk and maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

The estimated fair values of all financial instruments, except for loans to corporate entities, approximate their carrying values.

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability; or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability.

35 Fair value measurement (continued)

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

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

The following table shows the analysis of assets and liabilities as at 31 December 2014 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Derivative financial assets	—	9,329	—	9,329
Financial instruments at fair value through profit or loss:				
- Held by the Group	7,884,303	7,853,650	8,644,272	24,382,225
- Pledged as collateral under sale and repurchase agreements	3,527,007	4,404,449	—	7,931,456
Securities lent	—	—	1,477,238	1,477,238
Investments available for sale:				
- Held by the Group	51,492	26,240	4,835,154	4,912,886
Investment property	—	—	1,492,917	1,492,917
Property and equipment	—	—	716,566	716,566
Assets for which fair values are disclosed				
Due from banks	—	1,159,105	—	1,159,105
Loans to customers	—	—	94,412,084	94,412,084
Other financial assets	—	—	2,350,087	2,350,087
Liabilities measured at fair value				
Derivative financial liabilities	—	14,515	—	14,515
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	—	13,004,610	—	13,004,610
Due to banks	—	11,338,179	—	11,338,179
Customer accounts	—	—	90,800,134	90,800,134
Debt securities issued:				
- Promissory notes	—	—	1,028,167	1,028,167
- Bonds	17,263,463	—	—	17,263,463
Eurobonds issued	—	3,870,686	—	3,870,686
Other borrowings	—	—	1,089,506	1,089,506
Subordinated borrowings and Eurobonds	—	—	5,727,774	5,727,774

35 Fair value measurement (continued)

The following table shows the analysis of assets and liabilities as at 31 December 2013 by level of the fair value hierarchy:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Derivative financial assets	—	27,144	—	27,144
Financial instruments at fair value through profit or loss:				
- Held by the Group	7,514,956	248,885	4,632,585	12,396,426
- Pledged as collateral under sale and repurchase agreements	4,300,895	25,378	—	4,326,273
Investments available for sale:				
- Held by the Group	318,086	—	4,622,808	4,940,894
- Pledged as collateral under sale and repurchase agreements	1,863,775	—	—	1,863,775
Investment property	—	—	1,144,603	1,144,603
Property and equipment	—	—	731,239	731,239
Assets for which fair values are disclosed				
Due from banks	—	1,002,347	—	1,002,347
Loans to customers	—	—	81,355,246	81,355,246
Other financial assets	—	—	2,122,472	2,122,472
Liabilities measured at fair value				
Derivative financial liabilities	—	4,491	—	4,491
Liabilities for which fair values are disclosed				
Due to the Central Bank of the Russian Federation	—	6,505,580	—	6,505,580
Due to banks	—	6,224,146	—	6,224,146
Customer accounts	—	—	66,921,508	66,921,508
Debt securities issued:				
- Promissory notes	—	—	7,746,241	7,746,241
- Bonds	18,545,000	—	—	18,545,000
Subordinated borrowings	—	—	3,260,343	3,260,343

Transfers between Level 1 and Level 2. The table below shows the transfers from Level 1 to Level 2 of the fair value hierarchy in 2014 for financial assets and liabilities measured at fair value:

	Transfers from Level 1 to Level 2 for the year ended 31 December 2014
Financial assets	
Financial instruments at fair value through profit or loss	2,503,243
Total	2,503,243

The reason for the transfer of certain financial instruments from Level 1 to Level 2 of the fair value hierarchy is that the market for some securities has become inactive, and since the transfer, these financial instruments have been valued using valuation techniques incorporating observable inputs.

35 Fair value measurement (continued)

Changes in fair value measurements related to Level 3 of the fair value hierarchy may be presented as follows:

	Financial instruments at fair value through profit or loss		Investments available for sale	
	2014	2013	2014	2013
Balance at the beginning of the period	4,632,585	–	4,622,808	3,094,041
Total gains or losses recorded within:				
- Profit or loss	(302,055)	374,024	45,708	25,840
- Other comprehensive income	–	–	(96,682)	97,814
Purchases	5,788,319	–	2,403,008	3,126,668
Sales	–	(3,023,743)	(2,139,688)	(1,721,555)
Repayments	–	–	–	–
Transferred to Level 3 instruments	2,661	7,282,304	–	–
Balance at the end of the period	10,121,510	4,632,585	4,835,154	4,622,808
Unrealized gains (losses) for the period included in financial result for assets held at the reporting date	(1,660,597)	374,024	–	–
Unrealized gains (losses) for the period included in other comprehensive income for assets held at the reporting date	–	–	(97,558)	97,600

The Group believes that its estimates of the fair value are appropriate; however, the use of different methodologies and judgments could lead to different fair value measurements. Changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions would have had the following effect on the calculation results as at 31 December 2014:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	1,012,151	(1,012,151)	–	–
Investments available for sale	–	–	483,515	(483,515)
Investment property	149,292	(149,292)	–	–
Property and equipment	–	–	71,657	(71,657)
Total	1,161,443	(1,161,443)	555,172	(555,172)

The effect of changing one or more assumptions used for fair value measurements in Level 3 to possible alternative assumptions on the calculation results as at 31 December 2013 is presented in the table below:

	Effect on profit or loss		Effect on equity	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial instruments at fair value through profit or loss	463,259	(463,259)	–	–
Investments available for sale	–	–	462,281	(462,281)
Investment property	114,460	(114,460)	–	–
Property and equipment	–	–	73,124	(73,124)
Total	577,719	(577,719)	535,405	(535,405)

Favorable and unfavorable effects of using possible alternative assumptions are calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on average values of the upper and lower quartiles of the Group's range of possible estimates.

35 Fair value measurement (continued)

Impact of changes in significant unobservable inputs on the measurement of financial instruments categorized within Level 3 of the fair value hierarchy. The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 31 December 2014:

	Carrying amount	Valuation techniques	Unobservable inputs	Range (weighted average value)
Equity securities				
Mutual funds	8,821,700	Net asset value	Net assets	Not applicable
Real estate	880,028	Net asset value	Net assets	Not applicable
Manufacturing	222,123	Net asset value	Net assets	Not applicable
Debt securities				
Trade	3,116,736	Discounted cash flows	Credit risk of the issuer Risk-free return rate	5.4% 12.6%-14.3%
Finance	438,839	Discounted cash flows	Credit risk of the issuer Risk-free return rate	5.4% 12.7%
Securities lent				
Mutual funds	1,477,238	Net asset value	Net assets	Not applicable

The following table shows the quantitative information about significant unobservable inputs used in the measurement of financial instruments categorized within Level 3 of the fair value hierarchy as at 31 December 2013:

	Carrying amount	Valuation techniques	Unobservable inputs	Range (weighted average value)
Equity securities				
Mutual funds	4,813,840	Net asset value	Net assets	Not applicable
Real estate	885,886	Net asset value	Net assets	Not applicable
Manufacturing	243,906	Net asset value	Net assets	Not applicable
Debt securities				
Trade	2,860,295	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4.4% 5.6%
Finance	451,466	Discounted cash flows	Credit risk of the issuer Risk-free return rate	4.4% 5.8%

Financial instruments not carried at fair value in the statement of financial position. The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position as at 31 December 2014. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2014		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,189,970	1,159,105	(30,865)
Loans to customers	96,723,817	94,412,084	(2,311,733)
Other financial assets	2,456,871	2,350,087	(106,784)
Financial liabilities			
Due to banks	11,938,756	11,338,179	600,577
Customer accounts	90,160,326	90,800,134	(639,808)
Debt securities issued	20,400,059	18,291,630	2,108,429
Eurobonds issued	3,820,534	3,870,686	(50,152)
Other borrowings	1,195,682	1,089,506	106,176
Subordinated borrowings and Eurobonds	6,600,369	5,727,774	872,595
Total unrecognized change in fair value			548,435

35 Fair value measurement (continued)

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position as at 31 December 2013. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2013		
	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets			
Due from banks	1,037,614	1,002,347	(35,267)
Loans to customers	82,212,683	81,355,246	(857,437)
Other financial assets	2,074,129	2,122,472	48,343
Financial liabilities			
Due to banks	5,796,153	6,224,146	(427,993)
Customer accounts	66,772,316	66,921,508	(149,192)
Debt securities issued	26,178,698	26,291,241	(112,543)
Subordinated borrowings and Eurobonds	3,099,996	3,260,343	(160,347)
Total unrecognized change in fair value			(1,694,436)

36 Offsetting of financial instruments

The tables below show financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2014						
Financial assets						
Derivative financial assets	9,113	—	9,113	(7,614)	—	1,499
Reverse repurchase agreements	2,149,349	—	2,149,349	(2,149,349)	—	—
Total financial assets	2,158,462	—	2,158,462	(2,156,963)	—	1,499

	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities recognized in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
2014						
Financial liabilities						
Derivative financial liabilities	7,614	—	7,614	(7,614)	—	—
Sale and repurchase agreements	8,221,211	—	8,221,211	(7,046,529)	—	1,174,682
Total financial liabilities	8,228,825	—	8,228,825	(7,054,143)	—	1,174,682

36 Offsetting of financial instruments (continued)

As at 31 December 2014 commitments under repurchase agreements in the amount of RUB 1,174,682 thousand were effectively collateralised by securities with fair value of RUB 1,475,128 thousand received under reverse repurchase agreements.

	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
2013						
Financial assets						
Derivative financial assets	7,888	—	7,888	(2,065)	—	5,823
Reverse repurchase agreements	358,812	—	358,812	(358,812)	—	—
Total financial assets	366,700	—	366,700	(360,877)	—	5,823

	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities recognized in the statement of financial position	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
2013						
Financial liabilities						
Derivative financial liabilities	2,065	—	2,065	(2,065)	—	—
Sale and repurchase agreements	5,073,819	—	5,073,819	(5,073,819)	—	—
Total financial liabilities	5,075,884	—	5,075,884	(5,075,884)	—	—

37 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Bank is part of a group of related parties. These related parties are ultimately controlled by individuals, none of whom holds a controlling interest in any entity within the group of related parties. Transactions with the members of such group of related parties are disclosed in the table below as transactions with other related parties.

Banking transactions are entered into with significant shareholders, directors and other related parties. Such transactions include settlements, loans, deposit taking, trade financing and foreign currency transactions.

The Group is under significant influence of the Government of the Republic of Tatarstan, and in the ordinary course of business it cooperates with various companies controlled by the Government of the Republic of Tatarstan. Transactions with companies controlled or significantly influenced by the Government of the Republic of Tatarstan comprise loans, current accounts, deposits and subordinated borrowings.

37 Related party transactions (continued)

At 31 December 2014, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Due from banks (contractual interest rate: 0.5%)	–	–	351,110	–	351,110
Loans to customers, gross (contractual interest rate: 6%-18%)	857,226	29,642	7,440,215	124,568	8,451,651
Allowance for loan impairment	(44,995)	(71)	(1,165,222)	(6,677)	(1,216,965)
Investments available for sale (contractual interest rate: 14%)	1,318,867	–	–	–	1,318,867
Mutual fund units	–	–	5,164,027	–	5,164,027
Other assets	1,639,985	2	478	–	1,640,465
Due to banks (contractual interest rate: 7.6%-20%)	–	–	(3,699,582)	–	(3,699,582)
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(42,582)	(2,170)	(97,813)	(1,877)	(144,442)
- Term deposits (contractual interest rate: 0.3%-23%)	(38,604)	(36,996)	(10,611)	(342,214)	(428,425)
Debt securities issued (contractual interest rate: 0%)	–	–	(300,201)	–	(300,201)
Other liabilities	–	–	(2,542)	–	(2,542)
Subordinated borrowings (contractual interest rate: 8%-12.5%)	(999,995)	–	(3,500,379)	(2,099,995)	(6,600,369)
Obligation to repurchase interest in a subsidiary	–	–	(32,078)	–	(32,078)
Non-controlling interest	(1,570,321)	–	(216,288)	–	(1,786,609)

As at 31 December 2014, loans issued to the related parties of the Group in the amount of RUB 4,826,097 thousand (31 December 2013: RUB 1,292,651 thousand) net of allowance for impairment in the amount of RUB 747,195 thousand (31 December 2013: RUB 386,789 thousand) were partially or fully unsecured.

As at 31 December 2014, loans and accounts receivable in the amount of RUB 6,930,547 thousand (31 December 2013: RUB 3,931,104 thousand) net of allowance for impairment in the amount of RUB 1,137,904 thousand (31 December 2013: RUB 794,292 thousand) were issued to financial companies that are related parties of the Group, as these financial companies are controlled or significantly influenced by the Group's shareholders or key management personnel (Note 11). These loans are secured by collateral of various investments not traded in an active market and other assets in the total amount of RUB 2,936,649 thousand (31 December 2013: RUB 2,770,107 thousand).

37 Related party transactions (continued)

Income and expenses for 2014 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	34,651	666	573,036	14,456	622,809
Interest expense	(94,891)	(2,989)	(437,259)	(186,558)	(721,697)
Reversal of allowance/(allowance) for impairment of assets	12,350	(67)	(525,909)	(2,127)	(515,753)
Fee and commission income	452	144	1,438	82	2,116
Fee and commission expense	(2,127)	–	(46,522)	–	(48,649)
Net gains (losses) from foreign currencies	885	394	13	–	1,292
Income from agency operations related to third party property insurance	–	–	59,111	–	59,111
Other operating income	–	–	1,574	291	1,865
Administrative and other operating expenses	(8,972)	(51,476)	(121)	–	(60,569)
Profit (loss) attributable to non- controlling interests	41,604	–	3,006	–	44,610

In 2014, equity included RUB 880,028 thousand, net of paid income tax of RUB 176,006 thousand, resulting from writing off obligations to a company, controlled by shareholders.

Aggregate amounts lent to and repaid by related parties in 2014 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the year	4,749,875	29,682	17,133,192	38,663	21,951,412
Amounts repaid by related parties during the year	(5,198,484)	(348)	(13,272,819)	(17,411)	(18,489,062)
Change in related parties	–	(629)	(371,519)	–	(372,148)

37 Related party transactions (continued)

At 31 December 2013, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Loans to customers, gross (contractual interest rate: 5.5%-20%)	1,305,835	937	3,951,361	103,316	5,361,449
Allowance for loan impairment	(57,345)	(4)	(639,313)	(4,550)	(701,212)
Investments available for sale (contractual interest rate: 14%)	1,337,352	—	—	—	1,337,352
Mutual fund units	—	—	4,632,585	—	4,632,585
Other assets	7	—	624,885	—	624,892
Customer accounts:					
- Current and settlement accounts (contractual interest rate: 0%)	(10,342)	(2,856)	(7,558)	(3)	(20,759)
- Term deposits (contractual interest rate: 0.3%-11.6%)	(27,997)	(54,080)	(8,755)	—	(90,832)
Debt securities issued (contractual interest rate: 0%)	(632,000)	—	—	—	(632,000)
Other liabilities	—	—	(3,393)	—	(3,393)
Subordinated borrowings (contractual interest rate: 8%-9.7%)	(999,994)	—	—	(2,100,002)	(3,099,996)
Obligation to repurchase interest in a subsidiary	—	—	(32,078)	—	(32,078)
Non-controlling interest	(12,969)	—	(226,041)	—	(239,010)

Income and expenses for 2013 arising from transactions with related parties are disclosed below:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Interest income	103,389	158	376,997	15,434	495,978
Interest expense	(322,062)	(6,721)	(542)	(168,000)	(497,325)
Reversal of allowance/(allowance) for impairment of assets	(57,284)	3	206,400	16,451	165,570
Fee and commission income	1,644	117	2,000	395	4,156
Fee and commission expense	—	—	(45,774)	—	(45,774)
Net gains from operations with securities	—	—	36,029	—	36,029
Net gains from foreign currencies	797	4	—	—	801
Net gains from investment property	—	—	33,366	—	33,366
Income from agency operations related to third party property insurance	—	—	79,006	—	79,006
Other operating income	—	—	285	—	285
Administrative and other operating expenses	(8,660)	(49,387)	(23)	—	(58,070)
Profit (loss) attributable to non- controlling interests	(2,789)	—	(30 430)	—	(33,219)

37 Related party transactions (continued)

Aggregate amounts lent to and repaid by related parties in 2013 were as follows:

	Shareholders with significant influence	Key management personnel	Other related parties	Parties related through control by the Government of the Republic of Tatarstan	Total related parties
Amounts lent to related parties during the year	1,415,214	2,512	13,810,000	171,906	15,399,632
Amounts repaid by related parties during the year	(127,918)	(1,575)	(14,821,145)	(68,590)	(15,019,228)
Change in related parties	–	(3,876)	(341,020)	(468,538)	(813,434)

Compensations to key management for the years ended 31 December 2014 and 31 December 2013 are presented below:

	2014	2013
Salaries	34,000	37,070
Short-term bonuses	16,374	23,159
Total	50,374	60,229

Comparative data have been adjusted with account for year-end bonuses for 2013.

38 Subsidiaries

The following major subsidiaries are included in the consolidated financial statements of the Group:

Subsidiary	Interest, %		Principal place of business	Country of incorporation	Nature of operations
	31 December 2014	31 December 2013			
IC TFB-Finance LLC	68.00	100.00	Russian Federation	Russian Federation	Asset management
PJSC NCB “Radiotechbank”	58.39	58.39	Russian Federation	Russian Federation	Banking

Acquisition of control over PJSC NCB “Radiotechbank”. On 28 June 2013, the Bank received two offers from the equity holders of PJSC NCB “Radiotechbank” to purchase the shares of PJSC NCB “Radiotechbank” from these companies over a period of three years and increase its interest to 58.39%.

Immediately prior to the date of receiving the offers, the Group owned 29.85% of voting shares in PJSC NCB “Radiotechbank”, which were recorded as investments in associates.

Besides, the Group has certain powers on the Board of Directors of PJSC NCB “Radiotechbank”, over 50% of which is composed of acting key management personnel of the Group with specialized knowledge of the investee’s business.

As a result of receiving offers and the existing powers, as at 31 December 2014, PJSC NCB “Radiotechbank” was recognized as a subsidiary with significant interests and included in these consolidated financial statements as a fully consolidated subsidiary.

PJSC NCB “Radiotechbank” holds a general license for providing a full range of banking services issued by the Central Bank of the Russian Federation, and licenses for performing the following activities:

- ▶ Brokerage;
- ▶ Dealing;
- ▶ Securities management.

38 Subsidiaries (continued)

PJSC NCB “Radiotechbank” is included in the register of banks participating in the obligatory deposit insurance system.

PJSC NCB “Radiotechbank” is primarily engaged in lending to the real sector of the economy.

Subsidiaries with significant non-controlling interests. The following table contains information on subsidiaries with significant non-controlling interests as at 31 December 2014. Accumulated non-controlling interests are presented with account for the offer.

	Non-controlling interests, %	Profit/(loss) taken to non-controlling interests during 2014	Accumulated non-controlling interests at 31 December 2014	Dividends paid on non-controlling interests during 2014
IC TFB-Finance LLC	32	32,144	1,240,194	–
PJSC NCB “Radiotechbank”	41.61	89	164,610	–

The following table contains information on subsidiaries with significant non-controlling interests as at 31 December 2013. Accumulated non-controlling interests are presented with account for the offer.

	Non-controlling interests, %	Profit/(loss) taken to non-controlling interests during 2013	Accumulated non-controlling interests at 31 December 2013	Dividends paid on non-controlling interests during 2013
PJSC NCB “Radiotechbank”	41.61	(30,490)	164,521	–

On 28 June 2013, the Group received offers from equity holders of PJSC NCB “Radiotechbank” to purchase shares of PJSC NCB “Radiotechbank” over a period of three years and obtain controlling interest.

Immediately prior to the date of receiving the offers, the Group owned 29.85% of voting shares in PJSC NCB “Radiotechbank”, which were recorded as investments in associates.

Besides, the Bank has certain powers on the Board of Directors of PJSC NCB “Radiotechbank”, over 50% of which is composed by acting key management personnel of the Group with specialized skills in the investee’s business.

As a result of the received offers and the existing powers, at 31 December 2014 PJSC NCB “Radiotechbank” was recognized as a subsidiary with significant interest and included in these consolidated financial statements as a fully consolidated subsidiary.

PJSC NCB “Radiotechbank” holds a general license for providing a full range of banking services issued by the Central Bank of the Russian Federation, and licenses for performing the following activities:

- ▶ Brokerage;
- ▶ Dealing;
- ▶ Securities management.

PJSC NCB “Radiotechbank” is included in the register of banks participating in the obligatory deposit insurance system.

PJSC NCB “Radiotechbank” is primarily engaged in lending to the real sector of the economy.

38 Subsidiaries (continued)

The provisional fair value of identifiable assets and liabilities of PJSC NCB “Radiotechbank” at the date of acquisition is presented in the following table.

	Fair value
Cash and cash equivalents	263,866
Due from banks	86,577
Investments in securities	254,535
Loans to customers, net of impairment allowance	1,448,453
Investment property	115,300
Property and equipment	19,074
Deferred tax asset	13,346
Other assets	140,069
Total assets	2,341,220
Due to banks	21,493
Customer accounts	1,841,857
Debt securities issued	1,582
Other liabilities	12,521
Total liabilities	1,877,453
Total identifiable net assets	463,767

Fair value of the previously held equity interests	157,499
Non-controlling interest, calculated as share in net assets	192,115

Consideration transferred on acquisition	114,153
---	----------------

Below is a summary of the financial information of PJSC NCB “Radiotechbank” as at 31 December 2014 and for the year then ended. This information is based on amounts before elimination of intra-group transactions.

	31 December 2014	31 December 2013
Cash and cash equivalents	278,524	290,357
Due from banks	34,928	79,579
Investments in securities	213,302	209,499
Loans to customers	1,364,461	1,644,048
Investment property	102,050	102,050
Property and equipment	19,813	21,857
Other assets	170,651	153,041
Total assets	2,183,729	2,500,431
Due to banks	38,761	131,163
Customer accounts	1,733,023	1,955,532
Debt securities issued	—	608
Other liabilities	10,940	10,871
Total liabilities	1,782,724	2,098,174
Total net identifiable assets	401,005	402,257

38 Subsidiaries (continued)

	2014	2013
Interest income	319,814	244,418
Interest expense	(134,314)	(120,901)
Net interest income	185,500	123,517
Fee and commission income	63,511	53,357
Fee and commission expense	(5,978)	(5,974)
Net fee and commission income	57,533	47,383
Net (losses)/gains from financial instruments at fair value through profit or loss	(12,348)	3,111
Gains/(losses) less (losses)/gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	5,061	1,501
Net gains from investments available for sale	871	–
Other operating income	5,490	1,538
Allowance for impairment	(33,932)	(59,428)
Administrative and other operating expenses	(203,026)	(168,791)
Profit (loss) before tax	5,149	(51,169)
Income tax expense	(4,934)	(15,237)
Profit (loss) for the period	215	(66,406)
Other comprehensive loss for the period, net of tax	(1,755)	(363)
Total comprehensive loss for the period	(1,540)	(66,769)

	2014	2013
Net cash from operating activities	28,002	155,114
Net cash used in investing activities	(52,540)	(19,981)
Effect of exchange rate changes on cash and cash equivalents	12,690	645
Net (decrease)/increase in cash and cash equivalents	(11,848)	135,778

Summarized financial information for IC TFB-Finance LLC as at 31 December 2014 and for the year then ended is presented below. This information is based on amounts before elimination of intra-group transactions.

	31 December 2014	31 December 2013
Cash and cash equivalents	198,462	71,864
Investments in securities	46,611	6,370,419
Loans to customers	3,968,678	167,201
Other assets	27,855	22,602
Total assets	4,241,606	6,632,086
Due to banks	20,007	1,558,567
Other liabilities	28,841	2,832
Non-controlling interest	317,151	–
Total liabilities	365,999	1,561,399
Equity attributable to participants of the parent company	3,875,607	5,070,687
Total equity	3,875,607	5,070,687

38 Subsidiaries (continued)

	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income	159,735	53,127
Interest expense	(47,052)	(230,359)
Net interest income	112,683	(177,232)
Fee and commission income	95,908	92,182
Fee and commission expense	(15,052)	(3,749)
Net fee and commission income	80,856	88,433
Net (losses)/gains from financial instruments at fair value through profit or loss	146,831	452,464
Gains/(losses) less (losses)/gains from foreign currencies and foreign exchange derivatives, and from foreign currency translation	(56,067)	10,446
Net (losses)/gains from investments available for sale	(90,990)	177,345
Other operating income	387,288	38,142
Allowance for impairment	(280,371)	–
Administrative and other operating expenses	(126,823)	(15,352)
Profit before tax	173,407	574,246
Income tax expense	(129)	–
Profit for the period	173,278	574,246
Other comprehensive loss for the period, net of tax	(114,245)	(106,662)
Total comprehensive profit for the period	59,033	467,584

Disposal of TFB-Zaim LLC

On 31 December 2014, the Group lost control over TFB-Zaim LLC as a result of the sale of 90% in the charter capital to an unrelated third party. As a result of this disposal, the Group recognized a gain of RUB 1,562,998 thousand in other income.

The assets and liabilities of TFB-Zaim LLC at the date of the disposal are presented in the table below:

	31 December 2014
Cash and cash equivalents	5,970
Due from banks	35,731
Loans to customers	2,471,147
Property and equipment	652
Other assets	7,939
Total assets	2,521,439
Debt securities issued	1,505,392
Other borrowings	2,715,419
Other liabilities	8,708
Total liabilities	4,229,519
Equity attributable to participants	(1,708,080)

38 Subsidiaries (continued)

The total consideration for the sale was as follows:

	2014
Cash received	25,726
Total consideration	25,726

Cash inflow from the disposal of the subsidiary was as follows:

	For the year ended 31 December 2014
Net cash disposed of with the subsidiary (included in cash flows from financing activities)	(5,970)
Cash received (included in cash flows from financing activities)	25,726
Net increase in cash and cash equivalents	19,756

39 Events after the reporting date

On 19 January 2015, the Bank successfully completed the securitization of a part of its mortgage portfolio. The transaction was arranged by CJSC Sberbank CIB. The Agency for Housing Mortgage Lending acted as a guarantor, settlement agent and reserve service agent, and provided “cold” service. Financial risks were insured by JSC IC AHML.

The total amount of mortgage bonds is RUB 2,656,445 thousand. The coupon rate for the A class bonds is set at 11%.

The Board of Directors of PJSC “Tatfondbank” held a meeting on 25 February 2015. It approved the decision on the additional issue of the Bank’s securities and the Prospectus prepared pursuant to the decision of the General Shareholders’ Meeting of PJSC “Tatfondbank” dated 13 November 2014 on increasing the share capital of the Bank by placing additional four hundred million registered ordinary shares with a nominal value of RUB 10 per share (the total amount of placement is RUB 4 billion).

On 31 March 2015, the CBR registered an additional issue of shares in PJSC “Tatfondbank” in the amount of RUB 4 billion. The additional issue will include 400,000,000 ordinary registered non-certificated shares with a nominal value of RUB 10 per share (the placement price is RUB 10). Assets received in consideration for these shares consisted of cash in the total amount of RUB 1,823,000 thousand. On 4 December 2015, the CBR registered the Report on the issue.

In the first half of 2015, Closed-end bank loan mutual fund “Kreditnye Investitsii” ceased its operations. The Bank, as an owner of investment units, received monetary compensation of RUB 269,179 thousand as a result of distributing the fund’s remaining property in proportion to the number of investment units.

In July 2015, the Bank raised a 10-year subordinated deposit totaling RUB 240 million with an interest rate of 12% p.a.

In July-August 2015, the Bank raised a 10-year subordinated deposit totaling RUB 2,177 million with an interest rate of 12% p.a. The Group’s management expects that this subordinated deposit will be converted into the share capital.

On 31 July 2015, the Group acquired a 100% interest in the share capital of “Gazovik” LLC from the associate of the Bank’s shareholders for RUB 110,000 thousand. The Group recorded income from acquisition of “Gazovik” LLC within equity in the amount of RUB 1,314,574 thousand. “Gazovik” LLC is primarily engaged in crop and livestock production.

In the second half of 2015, Closed-end real estate mutual investment fund “Nash Novy Dom” ceased its operations. The Bank, as an owner of investment units, received monetary compensation of RUB 811,618 thousand as a result of distributing the fund’s remaining property in proportion to the number of investment units.

39 Events after the reporting date (continued)

In December 2015, as a result of the additional issue of investment units of Closed-end private equity mutual fund “Professional”, the Group’s interest decreased to 75.76%.

As part of the program of State Corporation “Deposit Insurance Agency” (the “DIA”) to increase capitalization, on 29 January 2016, the Bank attracted subordinated loan of RUB 1,416,580 thousand. The DIA purchased the Bank’s subordinated debt through the transfer of Russian Government Federal Bonds. Subordinated debt will be repaid by the Bank in 2025, 2027, 2029, 2032 and 2034. Interest (coupon) rate applicable to the Bank’s subordinated debt equals the coupon rate applicable to OFZ transferred to the Bank increased by 1% p.a. The debt is repaid twice a year, which is the same as the repayment schedule for OFZ transferred to the Bank.

OFZ have nominal interest coupon rate ranging from 12.84% to 14.48% p.a. and will be repaid by the Bank in 2025, 2027, 2029, 2032 and 2034.

On 16 March 2016, PJSC “Tatfondbank” acquired a 99.999% common equity stock of JSC “Bank “Sovetsky”. The shares were purchased in accordance with the bank’s rehabilitation plan to expand its presence. On 24 April 2016, the control over JSC “Bank “Sovetsky” was transferred from State Corporation “Deposit Insurance Agency” (“DIA”) to PJSC “Tatfondbank”.

On 17 March 2016, JSC “Bank “Sovetsky” received a loan from SC “Deposit Insurance Agency” (DIA) in the amount of RUB 10,790,000 thousand at 0.51% p.a. (discounted at the effective rate of 14.81%) in the course of implementing measures provided for by the Plan of DIA’s participation in the bankruptcy prevention procedures in respect of JSC “Bank “Sovetsky”. The loan matures on 17 March 2026. As at the date of control transfer, the fair value of the loan amounted to RUB 3,051,085 thousand (Note 4). As at 30 June 2016, the fair value of the loan amounted to RUB 3,108,644 thousand. To secure the obligations of JSC “Bank “Sovetsky” to SC “Deposit Insurance Agency”, the Group pledged receivables under loan agreements totaling RUB 12,416,321 thousand (including the Bank: RUB 7,875,738 thousand and JSC “Bank “Sovetsky”: RUB 4,540,583 thousand).

On 30 June 2016, under the agreement to increase net assets, the Bank’s shareholder provided debt-free financing in the amount of RUB 1,500,000 thousand, which was included in tier 1 capital.

On 18 July 2016, PJSC “Kazanorgsintez”, a member of the group of companies of OJSC “TAIF”, placed a subordinated deposit with the Bank for RUB 4,000,000 thousand for eight years bearing an interest rate of 10% p.a.

On 21 July and 28 July 2016, JSC “Tatspirom” acquired 250 million registered ordinary shares in the Bank from the current shareholders of PJSC “Tatfondbank” for RUB 10 per share in the total amount of RUB 2,500,000 thousand (17.33% of the share capital). JSC “Tatspirom” is 100%-owned by JSC “Sviazinvestneftekhim”, the sole shareholder of which is the Republic of Tatarstan. On 22 July and 29 July 2016, the Bank’s shareholders used the full amount of funds received from the sale of the shares to increase the Bank’s tier 1 capital under the agreement to increase net assets.

On 29 July 2016, an Extraordinary General Meeting of the Bank’s shareholders approved the increase in the share capital through an additional issue and public placement of 300 million registered ordinary shares with a total nominal value of RUB 3,000,000 thousand. The terms of the placement and payment, as well as the procedure for concluding agreements during the placement are determined by a decision on the additional issue. On 8 September 2016, the Bank’s Board of Directors approved the respective decision on the additional issue of registered ordinary uncertificated shares and the Prospectus.

BORROWER**Public Joint Stock Company "Tatfondbank"**

43/2 Chernyshevsky Street
Kazan 420111
Republic of Tatarstan
Russian Federation

ISSUER**TFB Finance Designated Activity Company**

3rd Floor, Kilmore House
Park Lane, Spencer Dock
Dublin 1, Ireland

JOINT LEAD MANAGERS**Merdeka Capital Limited**

Room 808, 8/F,
Arion Commercial Centre
8 Queen's Road West
Hong Kong

SC Lowy Financial (HK) Ltd

Suite 1401-02
Central Tower
28 Queen's Road Central
Hong Kong

SIB (Cyprus) Limited

Alpha Business Centre
1st Floor, Block B
27 Pindarou Street
1060 Nicosia, Cyprus

B&N Bank (Public Joint-Stock Company)

5a Grodnenskaya Street
121471 Moscow
Russian Federation

LEGAL ADVISERS TO THE JOINT LEAD MANAGERS**As to English law****Clifford Chance LLP**

10 Upper Bank Street
London E14 5JJ
United Kingdom

As to Russian law**Clifford Chance CIS Limited**

Ulitsa Gasheka, 6
Moscow, 125047
Russian Federation

**LEGAL ADVISERS TO THE TRUSTEE
AND AGENTS AS TO ENGLISH LAW****Clifford Chance LLP**

10 Upper Bank Street
London E14 5JJ
United Kingdom

**LEGAL ADVISERS TO THE ISSUER AS TO
IRISH LAW****Arthur Cox**

Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

AUDITORS TO THE BORROWER**Ernst & Young LLC**

Building 1, 77, Sadovnicheskaya Emb.
115035, Moscow
Russian Federation

LISTING AGENT**Arthur Cox Listing Services Limited**

Earlsfort Centre
Earlsfort Terrace
Dublin 2, Ireland

TRUSTEE**BNY Mellon Corporate
Trustee Services Limited**

One Canada Square
London E14 5AL
United Kingdom

**PRINCIPAL PAYING
AGENT, PAYING AGENT,
ACCOUNT BANK AND
CALCULATION AGENT****The Bank of New York
Mellon, London Branch**

One Canada Square
London E14 5AL
United Kingdom

**REGISTRAR AND
TRANSFER AGENT****The Bank Of New York
Mellon (Luxembourg) S.A.**

2-4 rue Eugène Ruppert
Vertigo Building – Polaris
L-2453 Luxembourg
Luxembourg