

# **PJSC “MTS Bank”**

## **Consolidated Financial Statements**

For the year ended December 31, 2015

# Public Joint-Stock Company “MTS Bank”

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# Public Joint-Stock Company “MTS Bank”

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

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Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint-Stock Company “MTS Bank” (the “Bank”) and its subsidiaries (the “Group”) as at December 31, 2015, and the related consolidated statements of profit or loss and other comprehensive income for the year than ended, changes in equity and cash flows for the year than ended, and of significant accounting policies and notes to the consolidated financial statements (the “consolidated financial statements”) in compliance with International Financial Reporting Standards (“IFRS”).

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2015 were authorized for issue on April 28, 2016.

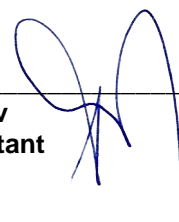
**On behalf of the Management Board:**



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**I.V. Filatov**  
**Chairman of the Management Board**

April 28, 2016  
Moscow



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**A.V. Yeltyshev**  
**Chief Accountant**

April 28, 2016  
Moscow

## INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of the Public Joint-Stock Company "MTS Bank".

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

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

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

### Auditor's Responsibility

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

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

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

## Opinion

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

### **Report on procedures performed in accordance with the Federal Law No. 395-1 “On Banks and Banking Activities” dated 2 December 1990**

Management of the Bank is responsible for compliance of the Group with the obligatory ratios established by the Bank of Russia (the “obligatory ratios”), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the “CBRF”) requirements.

According to Article 42 of the Federal Law No. 395-1 “On Banks and Banking Activities” dated 2 December 1990 (the “Federal Law”) in the course of our audit of the Group's consolidated financial statements for 2015 we performed procedures with respect to the Group's compliance with the obligatory ratios as at 1 January 2016 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2016 were within the limits established by the CBRF.

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

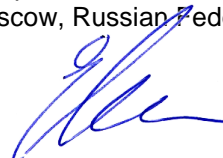
2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:
  - (a) in accordance with the CBRF requirements and recommendations as at 31 December 2015 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;
  - (b) as at 31 December 2015, the Bank had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
  - (c) as at 31 December 2015, the Bank had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

- (d) Frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2015 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;
- (e) as at 31 December 2015, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2015 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

*Deloitte & Touche*

28 April 2016  
Moscow, Russian Federation

  
Ponomarenko E.V., General Director  
(certificate no. 01-000190 dated November 28, 2011)

Deloitte & Touche CIS



The Entity: PUBLIC JOINT-STOCK COMPANY "MTS Bank"

Certificate of state registration № 2268 dated 29.01.1993.

Certificate of registration in the Unified State Register for legal entities №1027739053704 of 08.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: Russia, 115432, Moscow, Andropova Avenue 18, bld. 1

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407

# Public Joint-Stock Company “MTS Bank”

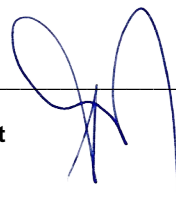
## Consolidated Statement of Profit or Loss for the Year Ended December 31, 2015 (in thousands of Russian Rubles)

	Notes	2015	2014
Interest income	4, 30	20,492,513	25,102,250
Interest expense	4, 30	(9,690,174)	(9,863,271)
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		10,802,339	15,238,979
Provision for impairment losses on interest bearing assets	5, 30	(21,442,608)	(20,627,163)
<b>Net interest expense</b>		(10,640,269)	(5,388,184)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	6, 30	152,768	(2,710,103)
Net gain on foreign exchange operations	7, 30	1,687,955	969,807
Fee and commission income	8, 30	3,415,752	4,136,899
Fee and commission expense	8, 30	(1,641,466)	(1,956,369)
Net loss on operations with investments available-for-sale		(279,829)	(132,230)
Provision for impairment losses on other transactions	5, 30	(2,189,464)	(709,175)
Changes in fair value of investment property	19	(468,830)	(984,794)
Net (loss)/gain on disposal of investment property		(38,751)	7,135
Net loss on revaluation of property and equipment	18	(60,386)	-
Other income	9, 30	461,415	337,292
<b>Net non-interest income/(expense)</b>		1,039,164	(1,041,538)
<b>Operating loss</b>		(9,601,105)	(6,429,722)
Operating expenses	10, 30	(8,820,329)	(9,618,041)
<b>Loss before income tax</b>		(18,421,434)	(16,047,763)
Income tax recovery	11	340,372	3,005,017
<b>Net loss for the year</b>		(18,081,062)	(13,042,746)
Attributable to:			
Owners of the Parent		(17,476,563)	(12,881,067)
Non-controlling interest	1	(604,499)	(161,679)
		(18,081,062)	(13,042,746)
<b>LOSS PER SHARE</b>			
Basic and diluted (RUB)	12	(2,421)	(3,290)

On behalf of the Management Board:

  
I.V. Filatov  
Chairman of the Management Board

April 28, 2016  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2016  
Moscow

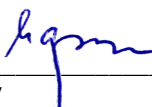
The notes on pages 11-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company "MTS Bank"

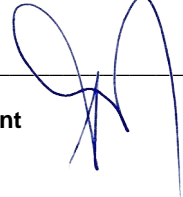
## Consolidated Statement of Other Comprehensive Income for the Year Ended December 31, 2015 (in thousands of Russian Rubles)

	Notes	2015	2014
<b>Net loss for the year</b>		(18,081,062)	(13,042,746)
<b>Other comprehensive income/(loss)</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Exchange differences on translating foreign operations		31,531	51,701
Net (loss)/gain resulting on revaluation of property	18	(2,412)	54,537
Deferred income tax	11	(493)	(15,924)
		28,626	90,314
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translating foreign operations		1,626,838	3,783,459
Net gain/(loss) resulting on revaluation of available-for-sale investments during the period		589,552	(463,912)
Reclassification adjustment relating to available-for-sale investments disposed of in the period		(37,251)	36,231
Deferred income tax	11	(140,965)	165,721
		2,038,174	3,521,499
<b>Other comprehensive income after income tax</b>		2,066,800	3,611,813
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(16,014,262)</b>	<b>(9,430,933)</b>
Attributable to:			
Owners of the parent		(16,142,283)	(10,531,442)
Non-controlling interest		128,021	1,100,509
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(16,014,262)</b>	<b>(9,430,933)</b>

On behalf of the Management Board:

  
I.V. Filatov  
Chairman of the Management Board

April 28, 2016  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2016  
Moscow

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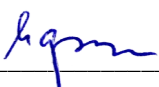


# Public Joint-Stock Company "MTS Bank"

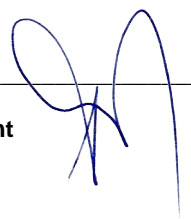
## Consolidated Statement of Financial Position as at December 31, 2015 (in thousands of Russian Rubles)

	Notes	December 31, 2015	December 31, 2014
<b>ASSETS:</b>			
Cash and balances with the Central Banks	13	19,173,800	15,972,280
Financial assets at fair value through profit or loss	14, 30	20,806,639	21,118,737
Due from banks	15	37,633,015	42,810,413
Loans to customers	16, 30	85,532,151	117,561,851
Investments available-for-sale	17, 30	7,090,967	4,896,441
Property, equipment and intangible assets	18	4,063,382	4,054,674
Investment property	19	2,785,669	2,533,261
Current income tax assets		240,136	78,939
Deferred income tax assets	11	3,289,732	3,306,996
Other assets	20, 30	1,498,526	1,853,162
<b>TOTAL ASSETS</b>		<b>182,114,017</b>	<b>214,186,754</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Financial liabilities at fair value through profit or loss	21	1,836,148	1,504,056
Due to the Central Bank of the Russian Federation	22	2,203,169	11,982,925
Due to banks and other financial institutions	23	693,226	4,728,121
Customer accounts	24, 30	139,994,091	145,197,208
Debt securities issued	25, 30	2,587,454	2,825,250
Current income tax liabilities		268,101	236,932
Deferred income tax liabilities	11	144,400	327,635
Other liabilities	26, 30	4,307,451	2,550,155
Subordinated debt	27, 30	13,319,654	12,059,848
<b>TOTAL LIABILITIES</b>		<b>165,353,694</b>	<b>181,412,130</b>
<b>EQUITY:</b>			
Equity attributable to owners of the Parent:			
Share capital	28	4,088,146	4,088,146
Share premium	28	18,386,416	25,508,439
Investments available-for-sale fair value reserve		194,362	(95,672)
Cumulative translation reserve		4,016,991	2,967,292
Property and equipment revaluation reserve		148,075	153,528
Accumulated deficit		(14,087,165)	(3,732,625)
Total equity attributable to owners of the Parent		12,746,825	28,889,108
Non-controlling interests	1	4,013,498	3,885,516
<b>TOTAL EQUITY</b>		<b>16,760,323</b>	<b>32,774,624</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>182,114,017</b>	<b>214,186,754</b>

On behalf of the Management Board:

  
I.V. Filatov  
Chairman of the Management Board

April 28, 2016  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2016  
Moscow

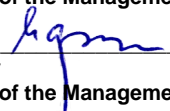
The notes on pages 11-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company “MTS Bank”

## Consolidated Statement of Changes in Equity for the Year Ended December 31, 2015 (in thousands of Russian Rubles)

	Notes	Share capital	Share premium	Investments available-for-sale fair value reserve	Cumulative translation reserve	Property and equipment revaluation reserve	(Accumulated deficit)/Retained earnings	Total equity attributable to owners of the Parent	Non-controlling interest	Total equity
<b>December 31, 2013</b>		<b>2,374,737</b>	<b>14,121,876</b>	<b>36,209</b>	<b>511,271</b>	<b>128,249</b>	<b>4,082,241</b>	<b>21,254,583</b>	<b>1,946,609</b>	<b>23,201,192</b>
Issue of ordinary shares	28	1,713,409	11,386,563	-	-	-	-	13,099,972	-	<b>13,099,972</b>
Issue of ordinary shares in subsidiary		-	-	-	-	-	-	-	838,398	<b>838,398</b>
Funds received from shareholders	2	-	-	-	-	-	5,065,995	5,065,995	-	<b>5,065,995</b>
Revaluation reserve for property and equipment transferred to accumulated deficit upon disposal		-	-	-	-	(206)	206	-	-	-
Comprehensive (loss)/income		-	-	(131,881)	2,456,021	25,485	(12,881,067)	(10,531,442)	1,100,509	<b>(9,430,933)</b>
<b>December 31, 2014</b>		<b>4,088,146</b>	<b>25,508,439</b>	<b>(95,672)</b>	<b>2,967,292</b>	<b>153,528</b>	<b>(3,732,625)</b>	<b>28,889,108</b>	<b>3,885,516</b>	<b>32,774,624</b>
Issue of ordinary shares in subsidiary		-	-	-	-	-	-	-	(39)	<b>(39)</b>
Transfer of share premium to accumulated deficit	28	-	(7,122,023)	-	-	-	7,122,023	-	-	-
Comprehensive income/(loss)		-	-	290,034	1,049,699	(5,453)	(17,476,563)	(16,142,283)	128,021	<b>(16,014,262)</b>
<b>December 31, 2015</b>		<b>4,088,146</b>	<b>18,386,416</b>	<b>194,362</b>	<b>4,016,991</b>	<b>148,075</b>	<b>(14,087,165)</b>	<b>12,746,825</b>	<b>4,013,498</b>	<b>16,760,323</b>

On behalf of the Management Board:

  
I.V. Filatov  
Chairman of the Management Board

April 28, 2016  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2016  
Moscow

The notes on pages 11-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company “MTS Bank”

## Consolidated Statement of Cash Flows for the Year Ended December 31, 2015 (in thousands of Russian Rubles)

	Notes	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest received		18,118,334	23,494,191
Interest paid		(9,477,157)	(10,381,183)
Payment for financial assets at fair value through profit or loss		430,186	(2,897,317)
Receipts from trading in foreign currencies		231,920	2,052,018
Fees and commissions received		3,396,385	4,136,898
Fees and commissions paid		(1,592,466)	(1,956,369)
Other operating income received		128,523	441,854
Administrative and other operating expenses paid		(7,953,433)	(9,007,386)
Income tax paid		(224,256)	(135,916)
<b>Cash inflow from operating activities before changes in operating assets and liabilities</b>		<b>3,058,036</b>	<b>5,746,790</b>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Banks of the Russian Federation and Luxembourg		798,439	289,471
Financial assets at fair value through profit or loss		1,813,271	2,603,299
Due from banks		(3,527,066)	16,101,500
Loans to customers		17,695,998	22,937,639
Other assets		(164,257)	(546,322)
Increase/(decrease) in operating liabilities:			
Due to the Central Bank of the Russian Federation		(10,280,807)	(4,393,481)
Due to banks and other financial institutions		(4,462,009)	(33,303,036)
Customer accounts		(15,686,066)	(8,458,660)
Debt securities in the normal course of business		(238,056)	(3,731,654)
Other liabilities		141,636	329,167
<b>Net cash outflow from operating activities</b>		<b>(10,850,881)</b>	<b>(2,425,287)</b>

# Public Joint-Stock Company “MTS Bank”

## Consolidated Statement of Cash Flows (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles)


	Notes	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property, equipment and intangible assets	18	(663,422)	(1,044,645)
Proceeds on disposal of property, equipment and intangible assets		37,748	34,975
Proceeds from sale of investment property		385,414	770,332
Purchase of investments available-for-sale		(3,000,411)	(10,216,004)
Proceeds on sale of investments available-for-sale		2,725,777	8,725,040
<b>Net cash outflow from investing activities</b>		<b>(514,894)</b>	<b>(1,730,302)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issue of ordinary shares		-	13,099,972
Proceeds from issue of ordinary shares in a subsidiary		-	838,398
Subordinated debt received		-	1,582,218
Funds received from shareholders	2	-	5,065,995
<b>Net cash inflow from financing activities</b>		<b>-</b>	<b>20,586,583</b>
<b>Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents</b>		<b>5,593,204</b>	<b>8,238,016</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,772,571)</b>	<b>24,669,010</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	13	<b>44,124,351</b>	<b>19,455,341</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	13	<b>38,351,780</b>	<b>44,124,351</b>

Non-cash transactions are disclosed in Notes 18 and 19.

On behalf of the Management Board:

  
\_\_\_\_\_  
**I.V. Filatov**  
**Chairman of the Management Board**

April 28, 2016  
Moscow

  
\_\_\_\_\_  
**A.V. Yeltyshev**  
**Chief Accountant**

April 28, 2016  
Moscow

The notes on pages 11-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

### 1. Organization

Public Joint Stock Company “MTS Bank” (“MTS Bank”) is a joint-stock Bank. The Bank was established in the Russian Federation as an open joint stock company in 1993. Former title of MTS Bank is JSCB “Moscow Bank for Reconstruction and Development” (Open Joint Stock Company) (“MBRD”) and was changed under a decision of Shareholders at a meeting held on December 16, 2011. In accordance with the change in Russian Federation legislation in 2014 the MTS Bank changed its legal form from OJSC to PJSC.

MTS Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2268. MTS Bank’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

Its registered office is located at 18, bld. 1, Andropova Avenue, Moscow, 115432, Russian Federation. As at 31 December 2015 and 2014 MTS Bank had 7 and 9 branches in the Russian Federation (“RF”) respectively.

The Bank is a parent company of a Banking group (the “Group”) which consists of the following enterprises:

Name	Country	Proportion of ownership interest/voting rights %		Type of operation
		December 31, 2015	December 31, 2014	
PJSC MTS Bank	RF	Parent company	Parent company	Commercial Bank
MBRD-Capital LLC	RF	100%/100%	100%/100%	Financial services
East-West United Bank S.A.	Luxembourg	66%/66%	66%/66%	Commercial Bank

East-West United Bank S.A. (EWUB) was incorporated in Luxembourg on June 12, 1974 as a limited liability company. EWUB’s primary business consists of commercial activities, trading with securities, foreign currencies, originating loans, guarantees and private banking operations.

As at 31 December 2015 the Group owns part of its assets through the following special purpose vehicles: CJSC Mortgage agent of MTSB, CJSC Proekthnoe resheniye, CJSC Vector-A, CJSC CA Dve Stolicy.

As at 31 December 2014 the Group owned part of its assets through the following special purpose vehicles: CJSC Mortgage agent of MBRD, CJSC Mortgage agent of MTSB, GrandFinance LLC.

In 2015 the Group lost control over GrandFinance LLC due to liquidation of the special purpose vehicle.

Furthermore, the Group holds 100 percent of the following investment funds:

- Closed unit investment real estate fund Kapitalny 2;
- Closed unit investment annuity fund Uralskaya Nedvizhimost 1;
- Closed unit investment annuity fund Uralskaya Nedvizhimost 2;
- Closed unit investment annuity fund Uralskaya Nedvizhimost 3;
- Closed unit investment annuity fund Bashkirskaya Nedvizhimost 2;
- Closed unit investment annuity fund Rentny 2;
- Closed unit investment annuity fund Rentny 3.

In 2015 the Group’s 100 percent share in Closed unit investment annuity Primorie was repaid.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 1. Organization (continued)

The table below shows details of non-wholly owned subsidiary of the Group that has material non-controlling interest:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interest		Loss allocated to non-controlling interest		Accumulated non-controlling interest	
	December 31, 2015	December 31, 2014	2015 RUR'000	2014 RUR'000	December 31, 2015 RUR'000	December 31, 2014 RUR'000
East-West United Bank S.A.	34%	34%	(604,499)	(161,679)	4,013,498	3,885,516
<b>Total</b>			(604,499)	(161,679)	4,013,498	3,885,516

Summarised financial information in respect of EWUB before intragroup eliminations is set out below.

Non-controlling interest comprise:

<b>East-West United Bank S.A.</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Assets	46,179,186	52,041,599
Liabilities	34,458,997	40,760,542
Equity attributable to owners of the Bank	7,735,325	7,445,498
Non-controlling interest	3,984,864	3,835,559
	<b>2015</b>	<b>2014</b>
Interest income	2,127,241	1,597,878
Interest expense	(389,106)	(398,948)
Provision for impairment losses on interest bearing assets	(2,628,043)	(1,099,891)
Net non-interest income	54,085	66,716
Operating expenses	(1,246,415)	(888,957)
Income tax recovery	400,628	190,658
<b>Loss for the year</b>	<b>(1,681,610)</b>	<b>(532,544)</b>
Loss attributable to owners of the Bank	(1,109,863)	(351,479)
Loss attributable to the non-controlling interest	(571,747)	(181,065)
<b>Loss for the year</b>	<b>(1,681,610)</b>	<b>(532,544)</b>
Other comprehensive income attributable to owners of the Bank	1,399,668	1,604,407
Other comprehensive income attributable to the non-controlling interest	721,041	826,513
Other comprehensive income for the year	2,120,710	2,430,919
Total comprehensive income attributable to owners of the Bank	289,806	1,252,928
Total comprehensive income attributable to the non-controlling interest	149,294	645,448
<b>Total comprehensive income for the year</b>	<b>439,100</b>	<b>1,898,375</b>
Dividends paid to non-controlling interest	-	-
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(4,991,418)</b>	<b>8,954,419</b>
Net cash outflow from investing activities	(115,695)	(1,897,687)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(136)</b>	<b>2,540,751</b>
<b>Net cash (outflow)/inflow</b>	<b>(4,721,938)</b>	<b>9,643,827</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 1. Organization (continued)

As at December 31, 2015 and 2014, the following shareholders owned the issued shares of MTS Bank:

	December 31, 2015, %	December 31, 2014, %
<b>Shareholder</b>		
JSFC Sistema (“Sistema”)	68.56	68.56
Mobile Telesystems B.V.	26.37	26.37
CJSC Promtorgcenter	2.08	2.08
OJSC Moscow City Telephone Network	0.69	0.69
LLC Notris	0.64	0.64
Other	1.66	1.66
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at December 31, 2015 and 2014 Sistema directly or indirectly owned 87.11% and 87.11% of the share capital of MTS Bank, respectively. Mr. V.P. Evtushenkov owns a controlling stake in Sistema.

The General meeting of Shareholders has the authority to give final approval to these financial statements.

### 2. Basis of presentation

#### Accounting basis

**Statement of compliance.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

**Going concern.** During the year ended December 31, 2015 and 2014, the Group incurred losses after tax in the amount of RUB 18,081,062 and RUB 13,042,746 thousand. The key factors of the negative financial results were an increase of the loan impairment provisions for both retail and corporate loan portfolios, increase of the impairment provisions for guarantees, decrease of the loan portfolio as a result of temporary stoppage of lending operations during 2015. In addition, a decrease in net interest income arising from uneven changes in interest rates on assets and liabilities had a significant impact on the financial results for 2015. A surge in interest rates on liabilities was as a result of a sharp increase in the CBRF key rate in December 2014; meanwhile, a compensating growth in interest rates on assets was limited due to borrowers’ inability to absorb such increases. The slowdown of the retail portfolio was caused by the tightening of lending conditions and decrease in the creditworthiness of individuals. In the latter half of 2014 the Group ceased to extend high-yield loans with elevated risk expectations and switched to a more moderate risk segment.

Both in 2015 and 2014 the Group faced asset quality erosion in both retail and corporate loan books amid general deterioration of the operating environment of Russia. The Group has as a result changed its estimations of probability of default of impaired loans. Therefore, the provision coverage of the non-performing loans notably grew in 2015 by 16%. The Group’s management believes that this increase in provisioning levels are appropriate to ensure the future stability of the Group’s operations taking into account current operating conditions.

As at December 31, 2015 the Group has a negative cumulative liquidity position in the amount of RUB 40,922,260 thousand for the period less than 1 year. As at December 31, 2015 the Group’s liabilities from its related parties amounted to approximately 50% (2014: 45%) of total liabilities being RUB 82,043,006 thousand (2014: RUB 81,840,222 thousand). Management of the Group carried out an analysis of its funding requirements and confirms that the Group will be able to meet all liabilities as they fall due in 2015 and beyond. The factors taken into account in this analysis are disclosed in Note 34.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 2. Basis of presentation (continued)

The decline in most sectors of the Russian economy and the further decline in energy prices in 2015 together with the combination of prolonged sanctions had a serious impact on the Russian banking sector. For this reason there was a need to increase the capitalization of credit organizations due to the increase in the share of foreign currency assets and growth of loan loss allowances.

In this environment, MTS Bank's capitalization was also a priority. During June-October 2014 MTS Bank received from the shareholders financial support in the amount of RUB 5,065,995 thousand. In December 2014 PJSC “MTS Bank” issued 3,426,818 ordinary shares with par value of RUB 500 each for RUB 13,099,972 thousand.

In November 2015, within the framework of the State Corporation Deposit Insurance Agency's Recapitalization Programme, MTS Bank received five subordinated securities loans (OFZs) with the nominal amount of 7,246,000 thousand roubles from the State Corporation Deposit Insurance Agency. In accordance with the Bank of Russia's Regulation No.395-П, these subordinated loans are recognized as additional capital for the purpose of calculating capital adequacy levels of the Bank.

As at December 31, 2015 and 2014 MTS Bank's capital adequacy ratio in accordance with the CBR requirements was 18.1% and 16.1%, respectively (Note 34). The minimum regulatory requirement for capital adequacy ratio is 10%.

In 2016 the Group's shareholders contributed RUB 5,023,626 thousand into the tier 1 equity of MTS Bank. In February 2016 MTS Bank issued 3,588,304 ordinary shares with par value of RUB 500. The issue was paid up by JSFC Sistema and Mobile Telesystems B.V. in the amount of 2,641,957 and 946,347 shares respectively. This transaction is carried out as a conversion of subordinated loans previously received from the shareholders to equity. As at end of February 2016 MTS Bank's total capital adequacy ratio in accordance with the CBR requirements grew to 21.45%. (As at end of February 2016 MTS Bank's tier 1 capital adequacy ratio in accordance with the CBR requirements grew to 9.78% from 6.2% as of year-end 2015).

To ensure future operational profitability and maintain financial stability, the Group's management and shareholders intend to develop the Group's business both in corporate and in retail segments focusing on transactional income, lending to low-risk clientele, operations with the Sistema group of companies and further improvement in cost efficiency.

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern for the foreseeable future. The Group's management is confident that the going concern assumption is applicable to the Group, as it has a sufficient level of capital, as well as historical experience proving that the Group's current liabilities have always been refinanced in the ordinary course of its activities. Funds received from the shareholders in 2014-2016 compensated the capital decrease resulting from the operating losses. Management believes that the Group will continue to receive shareholders' support in case of need. Management is correctly developing plans and strategies to return the Group to profitability and to improve its internal capital generation capacity.

**Other basis of presentation criteria.** These consolidated financial statements are presented in thousands of Russian rubles (“kRUB”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments as explained in the accounting policies below, and measurement of land, buildings and investment property at revalued amounts according to International Accounting Standard (“IAS”) 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 2. Basis of presentation (continued)

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

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

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

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

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

The principal accounting policies are set out below.

### 3. Significant accounting policies

**Basis of consolidation.** The consolidated financial statements incorporate the financial statements of MTS Bank and entities controlled by MTS Bank (its subsidiaries).

Control is achieved where MTS Bank:

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

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

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

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

**Business combinations.** Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities *and liabilities or assets related to employee benefit arrangements* are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- *Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date;* and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

Business combinations that took place prior to January 1, 2011 were accounted for in accordance with the previous version of IFRS 3.

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

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

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

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

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

#### **Recognition of revenue – other**

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

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

**Recognition of rental income.** The Group's policy for recognition of income as a lessor is set out in the “leases” section of this footnote.

**Recognition and measurement of financial instruments.** The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

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

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

**Financial assets at FVTPL.** Financial assets are classified as at FVTPL (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ and ‘interest income’ line item, respectively, in the statement of profit or loss. Fair value is determined in the manner described in Note 33.

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

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

**Loans and receivables.** Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans to customers’. Loans to customers are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

**Renegotiated loans.** Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

**Securities repurchase and reverse repurchase agreements and securities lending transactions.** In the normal course of business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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

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

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other states of the Commonwealth of Independent States (“CIS”), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

Effective from July 1, 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held for trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held to maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

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

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

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

**Cash and cash equivalents.** Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the Central Bank of Russian Federation and the Central Bank of Luxembourg, term deposits with the Central Bank of Russian Federation with original maturity less than 90 days.

The minimum reserve deposits with the CBR and Central Bank of Luxembourg are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

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

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

#### Financial liabilities and equity instruments issued

**Classification as debt or equity.** Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

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

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

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

**Financial liabilities at FVTPL.** Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss. Fair value is determined in the manner described (see Note 33).

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

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

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

**Derivative financial instruments.** The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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

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

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

The Group as lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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Land and buildings	2%
Furniture and equipment	20%
Intangible assets	20%

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# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

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

The carrying amounts of property, equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. After the recognition of an impairment loss the depreciation charge for fixed assets and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

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

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

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

**Investment property.** Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

**Taxation.** Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

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

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

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

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

**Retirement benefit obligations.** In accordance with the requirements of the RF legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension Fund of the Russian Federation which transfers them to pension funds selected by employees. The Group does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the RF state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

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

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

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Significant accounting policies (continued)

**Exchange rate.** The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2015	December 31, 2014
RUB/1 US Dollar	72.8827	56.2584
RUB/1 Euro	79.6972	68.3427
RUB/Gold (1 gram)	2 502.1000	2 146.0800

	December 31, 2015	December 31, 2014
<b>Average annual exchange rate</b>		
RUB/1 US Dollar	60.9579	38.4217
RUB/1 Euro	67.7767	50.8150

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

**Accounting for the effects of hyperinflation.** In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since January 1, 2003, the economy of the Russian Federation ceased to be hyperinflationary and the costs of non-monetary assets, liabilities and equity as stated in measuring units as at December 31, 2002 was used to form the opening balances as at January 1, 2003.

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

**Segment information.** The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the Group's management responsible for operational decision-making. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

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

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

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

- 'Available-for-sale' reserve which comprises changes in fair value of available-for-sale investments;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- 'Property revaluation reserve' which comprises revaluation reserve of land and building.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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.

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

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

Loans to customers which are assessed individually and for which no indicators of impairment are identified are aggregated into portfolios with similar credit quality characteristics. The level of provision was estimated on the basis of statistical information on the historical losses on loans with similar credit characteristics.

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

**Valuation of financial instruments.** The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 33 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Revaluation of property, equipment and investment property.** Land and buildings, intangible assets and investment property, except for construction in progress recorded at cost and tested for impairment are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Market value of assets is assessed using three methods:

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

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. The date of the latest appraisal was December 31, 2015. The next revaluation is scheduled for December 31, 2016.

**Deferred tax assets.** A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The time horizon of the forecasts used was limited to 10 years – the period when the tax loss carryforward can be utilized in accordance with Russian tax rules. The forecast assumptions do not include any incremental tax planning strategies. The valuation of deferred tax asset is highly sensitive to the successful realization of Group's strategy. The Group has reviewed sensitivity of taxable profits where either they are delayed or where taxable profits are 15% lower and the Group believes it will still utilize the deferred tax asset within the 10 years period.

**Provisions for possible payments.** The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

### APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

**Amendments to IFRSs affecting amounts reported in the financial statements.** In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

#### Standards affecting the financial statements

**Amendments to IFRSs affecting amounts reported in the financial statements.** In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contribution*;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

The impact of the application of these standards is set out below.

**Amendments to IAS 19 – Defined Benefit Plans: Employee contributions.** These amendments do not have any effect on the Group's consolidated financial statements as the Group does not have any Defined Benefit Plans.

**Annual Improvements to IFRSs 2010-2012 Cycle.** The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of ‘vesting condition’ and ‘market condition’ and add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

These amendments do not have a significant effect on the consolidated financial statements.

**Annual Improvements to IFRSs 2011-2013 Cycle.** The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The application of these amendments does not have a significant effect on the consolidated financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

**New and revised IFRSs in issue but not yet effective.** The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*;
- IFRS 14 *Regulatory Deferral Accounts*;
- IFRS 15 *Revenue from Contracts with Customers*;
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*;
- Amendments to IAS 1 – Disclosure initiative project;
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*;
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*;
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the Consolidation Exception*;
- Annual Improvements to IFRSs 2012-2014 Cycle.

**IFRS 9 *Financial Instruments*.** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition.
- **Impairment.** The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Group anticipates that the application of IFRS 15 in the future may have an impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

**Amendments to IAS 1 – Disclosure initiative project.** The amendments clarify the principles of disclosing information. The definition of materiality is expanded. It specifies the requirements of aggregation and disaggregation of data, clarifies that materiality applies to all parts of financial statements and even in those cases when the standards require specific disclosures materiality criteria do apply. The standard also provides more guidance on presenting the information in the statement of financial position and statement of comprehensive income as well as on the order of the notes in the financial statements.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 3. Significant accounting policies (continued)

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

**IFRS 16 Leases.** IFRS 16 *Leases* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment.

A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

The management of the Group believes that the other new and revised IFRSs that have been issued but are not yet effective will have no material impact on amounts reported in the Group's consolidated financial statements.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 4. Net interest income

	2015	2014
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on individually unimpaired financial assets	15,641,407	22,373,199
- interest income on individually impaired financial assets	2,605,718	921,093
Interest income on financial assets at fair value	2,245,388	1,807,958
<b>Total interest income</b>	<b>20,492,513</b>	<b>25,102,250</b>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	17,374,118	22,426,609
Interest on balances due from banks	873,007	867,683
Total interest income on financial assets recorded at amortized cost	18,247,125	23,294,292
Interest income on financial assets at fair value:		
Interest income on financial assets at fair value through profit or loss	1,897,962	1,585,569
Interest income on investments available-for-sale	347,426	222,389
Total interest income on financial assets at fair value	2,245,388	1,807,958
<b>Interest expense on financial liabilities recorded at amortized cost comprises:</b>		
Interest expense on customer accounts	(8,231,605)	(7,789,213)
Interest expense on due to banks and other financial institutions	(494,848)	(1,107,005)
Interest expense on debt securities issued	(191,815)	(304,083)
Interest expense on subordinated debt	(771,906)	(662,970)
<b>Total interest expense on financial liabilities recorded at amortized cost</b>	<b>(9,690,174)</b>	<b>(9,863,271)</b>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<b>10,802,339</b>	<b>15,238,979</b>

Interest income on impaired financial assets comprises interest income on loans individually determined to be impaired.

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
(in thousands of Russian Rubles, unless otherwise indicated)

## 5. Allowance for impairment losses and other provisions

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

	Due from banks	Loans to customers	Total
<b>December 31, 2013</b>	<b>662,646</b>	<b>16,435,214</b>	<b>17,097,860</b>
Provisions	111,818	20,515,345	20,627,163
Write-off of assets	-	(1,195,234)	(1,195,234)
Sale	(220,055)	(4,836,100)	(5,056,155)
Foreign exchange differences	279,695	582,240	861,935
<b>December 31, 2014</b>	<b>834,104</b>	<b>31,501,465</b>	<b>32,335,569</b>
Provisions	(126,577)	21,569,185	21,442,608
Write-off of assets	(515,442)	(7,304,785)	(7,820,227)
Sale	-	(34,929)	(34,929)
Foreign exchange differences	42,856	1,058,389	1,101,245
Group reorganization	-	(35,757)	(35,757)
<b>December 31, 2015</b>	<b>234,941</b>	<b>46,753,568</b>	<b>46,988,509</b>

For the year ended December 31, 2014 the Group received income from recovery of assets previously written off in the amount of RUB 27,809 thousand which is recognized in other income (Note 9).

The movements in other provisions were as follows:

	Other assets	Guarantees	Provision on legal claims	Total
<b>December 31, 2013</b>	<b>241,390</b>	17,068	<b>118,874</b>	<b>377,332</b>
Provisions	559,455	178,187	(28,467)	709,175
Write-off against provision	(564,230)	-	(16,886)	(581,116)
<b>December 31, 2014</b>	<b>236,615</b>	<b>195,255</b>	<b>73,521</b>	<b>505,391</b>
Provisions	441,045	1,754,844	(6,425)	2,189,464
Write-off against provision	(51,807)	-	(2,780)	(54,587)
<b>December 31, 2015</b>	<b>625,853</b>	<b>1,950,099</b>	<b>64,316</b>	<b>2,640,268</b>

Allowance for impairment of interest bearing assets and other assets are deducted from the respective asset items. Provisions for guarantees and legal claims are accounted for as other liabilities.

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
(in thousands of Russian Rubles, unless otherwise indicated)

## 6. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	2015	2014
<b>Net loss on derivatives</b>		
Realised loss on derivatives	(26,441)	(264,605)
Fair value adjustments	(791,640)	(1,044,063)
<b>Net gain/(loss) on financial assets and liabilities held for trading comprises:</b>		
Realised gain/(loss) from trading operations	456,627	(285,319)
Fair value adjustments	514,222	(1,116,116)
<b>Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss</b>	<b>152,768</b>	<b>(2,710,103)</b>

The Group enters into derivative financial instruments to manage market risks.

## 7. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	2015	2014
Dealing, net	345,364	391,788
Translation differences, net	1,342,591	578,019
<b>Total net gain on foreign exchange operations</b>	<b>1,687,955</b>	<b>969,807</b>

## 8. Fee and commission income and expense

Fee and commission income and expense comprise:

	2015	2014
<b>Fee and commission income:</b>		
Acquiring and card transactions	988,818	818,555
Cash operations with banking cards	778,997	1,377,093
Maintenance of bank cards	493,999	685,025
Maintenance of accounts	261,130	301,259
Documentary operations	243,891	205,385
Agents fees	241,847	319,433
Other cash operations	183,691	202,061
Foreign currency agent and controller operations	46,243	56,754
Trust and other fiduciary activities	20,265	34,299
Other	156,871	137,035
<b>Total fee and commission income</b>	<b>3,415,752</b>	<b>4,136,899</b>
<b>Fee and commission expense:</b>		
Settlements	(815,377)	(705,621)
Intermediary services	(615,197)	(1,017,249)
Cash operations	(98,516)	(131,272)
Documentary operations	(66,958)	(53,933)
Other	(45,418)	(48,294)
<b>Total fee and commission expense</b>	<b>(1,641,466)</b>	<b>(1,956,369)</b>

Agents fees represent fees earned from insurance companies for personal insurance of Group's borrowers.



# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
(in thousands of Russian Rubles, unless otherwise indicated)

## 9. Other income

Other income comprises:

	2015	2014
Gain on write-off of liabilities	251,075	21,492
Operating lease income	133,002	108,562
Fines and penalties	19,532	119,874
Gain on disposal of property, plant and equipment	11,142	8,577
Prior periods income	10,214	26,425
Information and consulting services	7,295	11,981
Gain on sale of loans	912	49
Net gain on precious metals operations	287	863
Recovery of assets previously written off	-	27,809
Other	27,956	11,660
<b>Total other income</b>	<b>461,415</b>	<b>337,292</b>

Fines and penalties for the years ended December 31, 2015 and 2014 included penalties in the amount of RUB 15,723 thousand and RUB 113,757 thousand, respectively, accrued on operations with a related party, which is acting as bank's agent on retail loans issuance.

## 10. Operating expenses

Operating expenses comprise:

	2015	2014
Staff costs	3,741,174	4,106,975
Social security contributions	763,175	841,425
<b>Total personnel expenses</b>	<b>4,504,349</b>	<b>4,948,400</b>
Depreciation and amortisation	793,628	616,825
Operating leases	787,509	894,454
Call center services	546,949	1,064,178
Payments to the Deposit Insurance Agency	423,566	263,951
Property and equipment maintenance	343,444	246,330
Communications	270,958	156,169
Professional services	269,268	341,242
Software maintainance	207,575	154,140
Taxes, other than income tax	115,977	64,670
Advertising expenses	78,690	167,653
Security expenses	75,884	79,201
Business trip expenses	31,124	42,405
Fines and penalties	22,950	8,351
Office expenses	19,708	129,464
Plastic cards	18,343	26,098
Other expenses	310,407	414,510
<b>Total operating expenses</b>	<b>8,820,329</b>	<b>9,618,041</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 11. Income tax

The Group calculates tax payments based on the tax accounts maintained and prepared in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

As certain income and expense are tax-free or tax non-deductible the Group is subject to certain permanent tax differences.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Temporary differences at December 31, 2015 and 2014 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Income tax in 2015 and 2014 years was calculated by applying a 29.22% tax rate to the profit or loss for the year of East-West United Bank.

Income tax in 2015 and 2014 years was calculated by applying a 20% tax rate to the profit or loss for the year in respect of all other components of the Group.

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

Temporary differences as at December 31, 2015 and 2014 comprise:

	December 31, 2015	December 31, 2014
Deferred tax assets/(liabilities) in relation to:		
Due from banks and loans to customers	2,533,430	(622,737)
Other assets	(650,794)	66,146
Investment property	99,277	263,704
Financial assets at fair value through profit or loss	(342,270)	(284,035)
Financial liabilities at fair value through profit or loss	354,940	164,841
Investments available-for-sale	(110,702)	345,141
Customer accounts	(14,756)	(17,788)
Property and equipment	(306,479)	(436,585)
Other financial liabilities	610,191	285,666
Tax loss carryforward recognized	3,283,006	3,215,008
Unrecognized deferred tax assets (except related to tax loss carryforward)	(2,310,511)	-
<b>Net deferred tax assets</b>	<b>3,145,332</b>	<b>2,979,361</b>

Reconciliation between income tax expense and consolidated profit before income tax for the years ended December 31, 2015 and 2014 is presented in the table below:

	2015	2014
Loss before tax	(18,421,434)	(16,047,763)
Tax charge at the statutory tax rate (20%)	(3,684,287)	(3,209,553)
Change in deferred tax asset not recognized	3,723,567	202,959
Effect of income taxed at different rates	(342,510)	(84,496)
Tax effect of permanent differences	(37,142)	86,073
<b>Income tax recovery</b>	<b>(340,372)</b>	<b>(3,005,017)</b>
Current income tax expenses	61,845	234,662
Changes in deferred tax	(402,217)	(3,239,679)
<b>Income tax recovery</b>	<b>(340,372)</b>	<b>(3,005,017)</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 11. Income tax (continued)

As at December 31, 2015 and 2014 the Group did not recognize part of deferred tax asset in the amount of RUB 3,960,445 thousand and RUB 202,959 thousand, respectively, as related tax losses are not expected to be utilized. The valuation of deferred tax assets is highly judgmental and is discussed in Note 3.

	December 31, 2015	December 31, 2014
<b>Deferred income tax assets/(liabilities)</b>		
Deferred tax assets at January 1	3,306,996	413,720
Deferred tax liabilities at January 1	(327,635)	(529,296)
Change in deferred income tax balances recognized in profit or loss	402,217	3,239,679
Change in deferred income tax recorded in other comprehensive income	(141,458)	4,515
Effect of foreign currencies exchange rate fluctuations	(94,788)	(149,257)
<b>Deferred income tax assets at December 31</b>	<b>3,289,732</b>	<b>3,306,996</b>
<b>Deferred income tax liabilities at December 31</b>	<b>(144,400)</b>	<b>(327,635)</b>

### 12. Loss per share

	2015	2014
Net loss for the year attributable to owners of the Bank	(17,476,563)	(12,881,067)
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share	7,219,476	3,914,709
<b>Loss per share – basic and diluted (RUB)</b>	<b>(2,421)</b>	<b>(3,290)</b>

### 13. Cash and balances with the Central Banks

	December 31, 2015	December 31, 2014
Balances with the Central Bank of the Russian Federation	12,095,546	7,016,321
Cash	6,733,245	8,564,219
Balances with the Central Bank of Luxembourg	345,009	391,740
<b>Total cash and balances with the Central Banks</b>	<b>19,173,800</b>	<b>15,972,280</b>

The balances with the Central Banks of the Russian Federation and Luxembourg as at December 31, 2015 and 2014 include RUB 1,001,708 thousand and RUB 1,800,148 thousand, respectively, which represent the obligatory minimum reserve deposits with the Central Banks. The Group is required to maintain minimum reserve deposits with the Central Banks on a constant basis.

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
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## 13. Cash and balances with the Central Banks (continued)

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2015	December 31, 2014
Cash and balances with the Central Banks	19,173,800	15,972,280
Correspondent accounts with banks and other financial organisations	20,179,688	29,952,219
	<b>39,353,488</b>	<b>45,924,499</b>
Less minimum reserve deposits with the Central Bank of the Russian Federation	(656,699)	(1,408,408)
Less minimum reserve deposits with the Central Bank of Luxembourg	(345,009)	(391,740)
<b>Total cash and cash equivalents</b>	<b>38,351,780</b>	<b>44,124,351</b>

## 14. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	Weighted average %	December 31, 2015	Weighted average %	December 31, 2014
Debt securities	8.5%	20,798,271	7.2%	21,109,453
Equity securities		-		9,284
Derivative financial instruments		8,368		-
<b>Total financial assets at fair value through profit or loss</b>		<b>20,806,639</b>		<b>21,118,737</b>

Financial assets at fair value through profit and loss are represented by financial assets held for trading:

	Weighted average %	December 31, 2015	Weighted average %	December 31, 2014
Debt securities				
- corporate and bank bonds	8.2%	15,291,785	7.8%	15,501,249
- Russian government debt securities	9.2%	5,363,406	5.3%	5,128,903
- municipal debt securities	10.2%	143,080	10.0%	479,301
Equity securities		-		9,284
Derivative financial instruments		8,368		-
<b>Total financial assets at fair value through profit or loss</b>		<b>20,806,639</b>		<b>21,118,737</b>

Information on derivative financial instruments are disclosed in Note 21.

As at December 31, 2015 and 2014 financial assets at fair value through profit or loss included government bonds and eurobonds in the amount of RUB 5,363,406 thousand and RUB 5,128,903 thousand respectively, which exceeded 10% of the Group's equity.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 14. Financial assets at fair value through profit or loss (continued)

As at December 31, 2015 financial assets at fair value through profit or loss of RUB 2,304,243 thousand were pledged under repurchase agreements with the CBR (Note 22). As at December 31, 2014 financial assets at fair value through profit or loss of RUB 6,075,728 thousand and RUB 337,071 thousand were pledged under repurchase agreements with the CBR (Note 22) and banks (Note 23), respectively.

### 15. Due from banks

Due from banks comprise:

	December 31, 2015	December 31, 2014
Correspondent accounts with banks and other financial organisations	20,179,688	29,952,219
Term deposits with banks	17,385,176	13,358,922
Reverse repurchase agreements with banks	303,092	333,376
	<b>37,867,956</b>	<b>43,644,517</b>
Less allowance for impairment losses	(234,941)	(834,104)
<b>Total due from banks</b>	<b>37,633,015</b>	<b>42,810,413</b>

Movements in allowances for impairment losses on balances due from banks for the years ended December 31, 2015 and 2014 are disclosed in Note 5.

As at December 31, 2015 and 2014 the Group had amounts due from 7 and 5 banks, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2015 and 2014 due from banks included guarantee deposits totaling RUB 1,477,985 thousand and RUB 1,623,280 thousand, respectively.

As at December 31, 2015 and 2014 term deposits with banks included other placements totaling RUB 1,618,716 thousand and RUB 934,908 thousand, respectively, according to the agreement on the procedure of payment of floating margin amounts.

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

	December 31, 2015		December 31, 2014	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate bonds	303,092	352,364	333,376	412,332
<b>Total</b>	<b>303,092</b>	<b>352,364</b>	<b>333,376</b>	<b>412,332</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 16. Loans to customers

Loans to customers comprise:

	December 31, 2015	December 31, 2014
Loans to customers	132,285,719	146,522,778
Reverse repurchase agreements	-	2,540,538
	<b>132,285,719</b>	<b>149,063,316</b>
Less allowance for impairment losses	(46,753,568)	(31,501,465)
<b>Total loans to customers</b>	<b>85,532,151</b>	<b>117,561,851</b>

Movements in allowance for impairment losses for the years ended December 31, 2015 and 2014 are disclosed in Note 5.

	December 31, 2015	December 31, 2014
Loans collateralized by pledge of real estate	37,160,020	41,302,645
Loans collateralized by guaranties and suretyships	31,012,936	19,245,444
Loans collateralized by cash	7,257,349	184,722
Loans collateralized by pledge of equipment	3,748,750	5,339,219
Loans collateralized by securities	2,254,592	6,923,362
Loans collateralized by pledge of own promissory notes	645,000	116,511
Loans collateralized by pledge of inventories	90,490	190,688
Loans collateralized by rights of claim	72,334	4,266
Loans collateralized by pledge of corporate securities	-	2,540,538
Loans collateralized by other collateral	-	20,946
Unsecured loans	50,044,248	73,194,975
	<b>132,285,719</b>	<b>149,063,316</b>
Less allowance for impairment losses	(46,753,568)	(31,501,465)
<b>Total loans to customers</b>	<b>85,532,151</b>	<b>117,561,851</b>

As at December 31, 2015 and 2014 cash balances are placed with the Group as collateral for loans to customers in the amount of RUB 4,788,304 thousand and RUB 182,656 thousand, respectively (Note 24).

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
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## 16. Loans to customers (continued)

	December 31, 2015	December 31, 2014
<b>Analysis by sector:</b>		
Individuals	59,569,948	73,301,997
Manufacturing	22,283,545	12,459,441
Real estate	12,750,326	15,237,065
Transport and communication	9,810,350	7,423,272
Trade	7,383,341	12,244,965
Food production	6,405,829	6,384,832
Finance lease	5,132,910	5,499,607
Hotel business	1,902,423	1,993,738
Culture and art	1,252,015	1,953,198
Finance sector	1,243,064	8,365,120
Agriculture	944,405	144,345
Oil industry	98,498	245,684
Tourism	30	54,413
Other	3,509,035	3,755,639
	<b>132,285,719</b>	<b>149,063,316</b>
Less allowance for impairment losses	(46,753,568)	(31,501,465)
<b>Total loans to customers</b>	<b>85,532,151</b>	<b>117,561,851</b>

Loans to individuals comprise the following products:

	December 31, 2015	December 31, 2014
Mortgage loans	20,828,664	24,091,698
Credit cards	20,664,481	25,778,851
Consumer loans	16,748,780	21,744,038
Car loans	519,799	666,668
Other	808,224	1,020,742
	59,569,948	73,301,997
Less allowance for impairment losses	(21,458,705)	(20,280,017)
<b>Total loans to individuals</b>	<b>38,111,243</b>	<b>53,021,980</b>

As at December 31, 2015 and 2014 included in retail loans are mortgage loans with gross amount of RUB 1,538,819 thousand and RUB 1,768,780 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2015 and 2014 (see Note 25 for details).

As at December 31, 2015 and 2014 the Group granted loans to 7 and 4 customers totaling RUB 27,834,349 thousand and RUB 15,012,385 thousand, respectively, which individually exceeded 10% of the Group's equity. In 2015 these balances included loans to 1 customer that were collateralized by cash in the total amount RUB 4,681,819 thousand.

As at December 31, 2015 and 2014 loans to customers included loans totaling RUB 1,721,293 thousand and RUB 7,231,601 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

During the years ended 31 December 2015 and 2014 the Group sold certain loans to third parties with a discount to nominal value with no recourse and without any service obligations associated with the loans. Allowance for impairment losses written off on sale of loans for the year ended December 31, 2015 and 2014 amounted to RUB 34,929 thousand and RUB 4,836,100 thousand, respectively.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 16. Loans to customers (continued)

As at December 31, 2014 loans to customers in the amount of RUB 6,147,645 thousand were pledged as collateral for funds received from the CBR (Note 22).

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

	December 31, 2015			December 31, 2014		
	Carrying value of loans before allowance	Allowance for impairment losses	Carrying value	Carrying value of loans before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	39,009,967	(22,878,720)	16,131,247	25,133,577	(8,909,379)	16,224,198
Loans with no individual indicators of impairment	25,573,956	(200,800)	25,373,156	35,143,635	(343,262)	34,800,373
Loans to customers collectively assessed for impairment	67,701,796	(23,674,048)	44,027,748	88,786,104	(22,248,824)	66,537,280
<b>Total</b>	<b>132,285,719</b>	<b>(46,753,568)</b>	<b>85,532,151</b>	<b>149,063,316</b>	<b>(31,501,465)</b>	<b>117,561,851</b>

As at December 31, 2015 and 2014 loans that had individual indicators of impairment related to negative trends in the borrowers' or guarantors' financial position were collateralized by pledge of the following types: real estate, corporate guarantees, equipment, other collateral, in the gross amount of RUB 25,849,377 thousand and RUB 16,516,497 thousand, respectively.

### 17. Investments available-for-sale

Investments available-for-sale comprises:

	Weighted Average Interest to nominal	December 31, 2015	Weighted Average Interest to nominal	December 31, 2014
Bonds issued by companies and banks	5.80%	6,886,603	7.41%	4,645,378
Equity securities		177,101		127,713
Investment in venture fund		27,263		123,350
<b>Total investments available-for-sale</b>		<b>7,090,967</b>		<b>4,896,441</b>

Investment in a venture fund comprises a 50% share in net assets of Closed-end investment. Assets of the fund include cash and investments in share capitals of Russian companies. The Group has no control or significant influence over the financial and operating policies of the venture fund.

As at December 31, 2015 Investments available-for-sale of RUB 108,586 thousand were pledged under repurchase agreements with the CBR (Note 22).



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 18. Property, equipment and intangible assets

	Land and buildings	Capital invest- ments	Furniture and equipment	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
<b>Cost of acquisition/fair value</b>						
<b>December 31, 2013</b>	<b>1,517,230</b>	<b>173,518</b>	<b>2,373,585</b>	<b>4,064,333</b>	<b>1,356,852</b>	<b>5,421,185</b>
Acquisitions	3,151	145,389	523,227	<b>671,767</b>	372,877	<b>1,044,645</b>
Disposals	(3,130)	(10,894)	(298,905)	<b>(312,929)</b>	(5,138)	<b>(318,067)</b>
Elimination of accumulated depreciation on revaluation	(30,071)	-	-	<b>(30,071)</b>	-	<b>(30,071)</b>
Revaluation	54,537	-	-	<b>54,537</b>	-	<b>54,537</b>
Foreign exchange differences	420,161	-	39,262	<b>459,423</b>	40,407	<b>499,829</b>
<b>December 31, 2014</b>	<b>1,961,878</b>	<b>308,013</b>	<b>2,637,169</b>	<b>4,907,060</b>	<b>1,764,998</b>	<b>6,672,058</b>
Acquisitions	37,796	24,642	151,976	<b>214,414</b>	449,008	<b>663,422</b>
Disposals	(646)	(32,356)	(211,862)	<b>(244,864)</b>	(28,022)	<b>(272,886)</b>
Elimination of accumulated depreciation on revaluation	(28,558)	-	-	<b>(28,558)</b>	-	<b>(28,558)</b>
Revaluation	(62,798)	-	-	<b>(62,798)</b>	-	<b>(62,798)</b>
Foreign exchange differences	215,719	-	20,096	<b>235,816</b>	30,109	<b>265,925</b>
<b>December 31, 2015</b>	<b>2,123,392</b>	<b>300,299</b>	<b>2,597,380</b>	<b>5,021,071</b>	<b>2,216,092</b>	<b>7,237,163</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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(in thousands of Russian Rubles, unless otherwise indicated)

### 18. Property, equipment and intangible assets (continued)

	Land and buildings	Capital invest- ments	Furniture and equipment	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
<b>Accumulated depreciation</b>						
<b>December 31, 2013</b>	<b>2,269</b>	<b>135,834</b>	<b>1,475,282</b>	<b>1,613,385</b>	<b>637,460</b>	<b>2,250,845</b>
Charge for the year	36,578	11,146	311,398	<b>359,121</b>	257,703	<b>616,825</b>
Disposals	(1,124)	(10,894)	(279,620)	<b>(291,638)</b>	(31)	<b>(291,669)</b>
Elimination of accumulated depreciation on revaluation	(30,071)	-	-	<b>(30,071)</b>	-	<b>(30,071)</b>
Foreign exchange differences	7,716	-	25,926	<b>33,642</b>	37,812	<b>71,454</b>
<b>December 31, 2014</b>	<b>15,368</b>	<b>136,086</b>	<b>1,532,986</b>	<b>1,684,440</b>	<b>932,944</b>	<b>2,617,384</b>
Charge for the year	14,164	11,739	325,740	<b>351,642</b>	441,985	<b>793,628</b>
Disposals	(23)	(32,318)	(197,708)	<b>(230,048)</b>	(16,232)	<b>(246,281)</b>
Elimination of accumulated depreciation on revaluation	(28,558)	-	-	<b>(28,558)</b>	-	<b>(28,558)</b>
Foreign exchange differences	-	-	17,130	<b>17,130</b>	20,478	<b>37,608</b>
<b>December 31, 2015</b>	<b>951</b>	<b>115,507</b>	<b>1,678,148</b>	<b>1,794,606</b>	<b>1,379,175</b>	<b>3,173,781</b>
<b>Net book value</b>						
<b>December 31, 2014</b>	<b>1,946,511</b>	<b>171,927</b>	<b>1,104,183</b>	<b>3,222,621</b>	<b>832,053</b>	<b>4,054,674</b>
<b>December 31, 2015</b>	<b>2,122,441</b>	<b>184,792</b>	<b>919,233</b>	<b>3,226,466</b>	<b>836,916</b>	<b>4,063,382</b>

As at December 31, 2015 and 2014 buildings of RUB 807,905 thousand and RUB 757,579 thousand respectively were pledged as collateral on a loan received from another bank (Note 23).

As at December 31, 2015 and 2014 land and buildings owned by the Group were recognized at fair value. The following methods were used for estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the final value calculation, certain weights were assigned to the results obtained using different approaches, depending on the degree of reliability and completeness of the information. The carrying values of these assets were RUB 2,122,441 thousand and RUB 1,946,511 thousand, respectively. If the land and buildings were accounted for at historical cost adjusted for inflation less accumulated depreciation and impairment losses, their carrying value as at December 31, 2015 and 2014 would be RUB 920,294 thousand and RUB 759,086 thousand, respectively.

As at December 31, 2015 and 2014 property and equipment included fully depreciated equipment of RUB 1,171,276 thousand and RUB 1,194,983 thousand, respectively.

As at December 31, 2015 and 2014 the Group's buildings belonged to Level 3 within the fair value hierarchy. There were no transfers between Levels 1, 2 and 3 during 2015 and 2014 years.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 19. Investment property

Investment property comprises:

	December 31, 2015	December 31, 2014
At January 1	2,533,261	3,125,150
Property taken in possession under loan agreements	1,145,403	1,156,102
Disposals	(424,165)	(763,197)
Changes in fair value of investment property	(468,830)	(984,794)
<b>At December 31</b>	<b>2,785,669</b>	<b>2,533,261</b>

As at December 31, 2015 and 2014 operating lease income comprised investment property rental income of RUB 118,708 thousand and RUB 99,317 thousand, respectively.

As at December 31, 2015 and 2014 operating expenses comprised investment property operating expenses of RUB 45,499 thousand and RUB 22,619 thousand, respectively.

As at December 31, 2015 and 2014 investment property was recognized at fair value. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using different approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the investment property, or documented obligations to purchase, construct, repair, maintain or improve the investment property.

As at December 31, 2015 and 2014 the Group's investment property belonged to Level 3 within the fair value hierarchy. There were no transfers between Levels 1, 2 and 3 during 2015 and 2014 years.

### 20. Other assets

Other assets comprise:

	December 31, 2015	December 31, 2014
Fines and penalties receivable	1,020,970	719,951
Advances to suppliers and contractors	554,345	902,198
Inventory	323,837	309,673
Tax settlements, other than income tax	46,984	31,739
Precious metals	16,728	14,842
Other	161,515	111,374
	2,124,379	2,089,777
Less allowance for impairment losses	(625,853)	(236,615)
<b>Total other assets</b>	<b>1,498,526</b>	<b>1,853,162</b>

As at December 31, 2015 and 2014 other assets included financial assets of RUB 587,552 thousand and RUB 933,369 thousand, respectively.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 21. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise:

	Weighted average %	December 31, 2015	Weighted average %	December 31, 2014
Obligation to deliver securities		-	7.43%	459,993
Derivative financial instruments		1,836,148		1,044,063
<b>Total financial liabilities at fair value through profit or loss</b>		<b>1,836,148</b>		<b>1,504,056</b>

As at December 31, 2015 derivative financial instruments comprise:

	December 31, 2015			
	Notional amount	Maturity	Fair value asset	Fair value liability
<b>Derivative financial instruments held for trading:</b>				
<b>Foreign currency</b>				
Swaps	3,770,613	January - March, 2016	8,368	8,788
<b>Interest rate</b>				
Swaps	1,870,000	September, 2017	-	1,827,360
<b>Total derivative financial instruments held for trading</b>			<b>8,368</b>	<b>1,836,148</b>

As at December 31, 2014 derivative financial instruments comprise:

	Notional amount	Maturity	Fair value asset	Fair value liability
<b>Derivative financial instruments held for trading:</b>				
<b>Foreign currency</b>				
Swaps	4,907,767	January - March, 2015	-	136,647
<b>Interest rate</b>				
Swaps	1,870,000	September, 2017	-	821,748
<b>Securities</b>				
Swaps	478,720	May, 2015	-	85,668
<b>Total derivative financial instruments held for trading</b>			<b>-</b>	<b>1,044,063</b>

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
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## 22. Due to the Central Bank of the Russian Federation

Due to the Central Bank of the Russian Federation comprise:

	Maturity month/year	Weighted average interest rate %	December 31, 2015
Repurchase agreements	February 2016 - March 2016	1.24%	2,203,169
<b>Total due to the Central Bank of the Russian Federation</b>			<b>2,203,169</b>

As at December 31, 2015 financial assets at fair value through profit or loss and investments available-for-sale with fair value of RUB 2,304,243 thousand and RUB 108,586 thousand respectively were pledged under repurchase agreements with the CBR (Notes 14 and 17).

	Maturity month/year	Weighted average interest rate %	December 31, 2014
Repurchase agreements	November 2015 January - April 2015	3.12%	5,494,450
Loans from the CBR		16.24%	6,488,475
<b>Total due to the Central Bank of the Russian Federation</b>			<b>11,982,925</b>

As at December 31, 2014 financial assets at fair value through profit or loss with fair value of RUB 6,075,728 thousand were pledged under repurchase agreements with the CBR (Note 14).

As at December 31, 2014 loans from the CBR were secured with bank guarantees in the amount of RUB 3,000,000 thousand and collateralized by loans to customers in the amount of RUB 6,147,645 thousand (Note 16).

## 23. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	December 31, 2015	December 31, 2014
Loans and term deposits from banks and other financial institutions	519,427	4,230,314
Correspondent accounts of other banks	173,799	217,091
Loans under reverse repurchase agreements	-	280,716
<b>Total due to banks and other financial institutions</b>	<b>693,226</b>	<b>4,728,121</b>

As at December 31, 2014 financial assets at fair value through profit or loss with fair value of RUB 337,071 thousand were pledged under repurchase agreements with the banks (Note 14).

As at December 31, 2015 and 2014 buildings of RUB 807,905 thousand and RUB 757,579 thousand respectively were pledged as collateral on a loan received from another bank (Note 18).

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 24. Customer accounts

Customer accounts comprise:

	December 31, 2015	December 31, 2014
Time deposits	92,685,701	97,966,222
Current accounts	47,308,390	47,230,986
<b>Total customer accounts</b>	<b>139,994,091</b>	<b>145,197,208</b>

As at December 31, 2015 and 2014 customer accounts individually exceeding 10% of the Group's equity were placed by 13 and 8 customers in the total amount of RUB 64,142,491 thousand (46% of total customer accounts) and RUB 77,650,980 thousand (54% of total customer accounts), respectively.

As at December 31, 2015 and 2014 customer accounts included balances placed with the Group as a collateral for loans to customers in the amount of RUB 4,788,304 thousand and RUB 182,656 thousand, respectively (Note 16).

	December 31, 2015	December 31, 2014
<b>Analysis by sector:</b>		
Individuals	70,941,139	71,247,457
Finance sector	35,135,867	26,573,055
Real estate and construction	10,503,052	14,114,605
Trade	6,675,170	2,938,672
Transport and communication	5,737,665	11,754,873
Manufacturing	3,553,304	6,667,844
Medicine	1,459,939	4,906,447
Oil and gas industry	556,579	822,807
Science and education	244,240	594,470
Other	5,187,136	5,576,978
<b>Total customer accounts</b>	<b>139,994,091</b>	<b>145,197,208</b>

### 25. Debt securities Issued

Debt securities issued comprise:

	Maturity month/year	Annual interest rate %	December 31, 2015	Maturity month/year	Annual interest rate %	December 31, 2014
Mortgage-Backed Securities	November 2041	10.5%	1,429,499	November 2041	10.5%	1,850,740
Promissory notes	January- October 2016	0.1%- 11.55%	1,157,955	January- November 2015	5.06%- 9.24%	974,510
<b>Total debt securities issued</b>			<b>2,587,454</b>			<b>2,825,250</b>

As at December 2015 and 2014, Mortgage-Backed Securities issued by the Group in the amount of RUB 1,429,499 thousand and RUB 1,850,740 thousand, respectively, were collateralized by retail loans with gross amount of RUB 1,538,819 thousand and RUB 1,768,780 thousand respectively (Note 16).

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 26. Other liabilities

Other liabilities comprise:

	December 31, 2015	December 31, 2014
Provision for guarantees	1,950,099	195,255
Settlements with suppliers and contractors	1,128,735	1,277,584
Salaries and other compensations payable to employees	443,934	520,931
Taxes payable, other than income tax	184,858	238,120
Contributions to the Deposit Insurance Agency payable	65,521	68,104
Accounts payable	64,422	95,015
Provision on legal claims	64,316	73,521
Deferred bank guarantee fees	4,730	6,036
Other	400,836	75,589
<b>Total other liabilities</b>	<b>4,307,451</b>	<b>2,550,155</b>

As at December 31, 2015 and 2014 other liabilities comprised financial liabilities of RUB 1,631,757 thousand and RUB 1,751,868 thousand, respectively.

Movements in provisions for guarantees and legal claims for the years ended December 31, 2015 and 2014 are disclosed in Note 5.

### 27. Subordinated debt

	Maturity date	Weighted average interest rate %	December 31, 2015	Maturity date	Weighted average interest rate %	December 31, 2014
Subordinated debt	2021 - 2024	5.82%	9,499,778	2021 - 2024	5.82%	9,120,531
Subordinated eurobonds	2016	7.93%	3,819,876	2016	7.93%	2,939,317
<b>Total subordinated debt</b>			<b>13,319,654</b>			<b>12,059,848</b>

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

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended December 31, 2015 and 2014.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 28. Share capital

As at December 31, 2015 the authorized share capital consisted of 7,219,476 ordinary shares with par value of RUB 500 each and 1,000 preference shares with par value of RUB 500 each.

The table below provides a reconciliation of the number of shares issued for the years ended December 31, 2015 and 2014:

	Number of preference shares	Number of ordinary shares
December 31, 2013	1,000	3,792,658
Issue of shares	-	3,426,818
December 31, 2014	1,000	7,219,476
Issue of shares	-	-
<b>December 31, 2015</b>	<b>1,000</b>	<b>7,219,476</b>

All ordinary shares are of the same class and bear one vote. Preference shares are not cumulative and not redeemable.

As at December 31, 2015 and 2014, share premium totaling RUB 18,386,416 thousand and RUB 25,508,439 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

In December 2014 PJSC “MTS Bank” issued 3,426,818 ordinary shares with par value of RUB 500 each for RUB 13,099,972 thousand.

In 2015 the Group transferred share premium in the amount of RUB 7,122,023 thousand to cover accumulated loss.

The Group's distributable reserves among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general Banking risks, including future losses and other unforeseen risks or contingencies. This reserve has been created in accordance with the Group's articles of association that provide for the creation of a reserve of not less than 12.5% of the Group's share capital reported in statutory books.

### 29. Transferred financial assets

The Group lends and sells securities under agreements to repurchase (repos) and borrows and purchases securities under agreements to resell (reverse repos). The securities lent or sold under agreements to repurchase are transferred to a third party in exchange for cash or other financial assets.

The Group retains substantially all the risks and rewards in respect of these securities, which include credit risk and market risk, and therefore does not derecognize them. In addition, the Group recognizes a financial liability in respect of cash or other financial assets received.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead recognizes a separate asset for any possible cash collateral provided.



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 29. Transferred financial assets (continued)

Details of transferred financial assets that are not derecognised as at December 31, 2015 and December 31, 2014 are disclosed below:

	Financial assets at fair value through profit or loss (Note 14)	Investments available-for- sale (Note 17)
<b>As at December 31, 2015</b>		
Carrying amount of assets	2,304,243	108,586
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 22)	2,102,642	100,527
<b>As at December 31, 2014</b>		
Carrying amount of assets	6,412,799	-
Carrying amount of associated liabilities (loans received under repurchase agreements, Notes 22 and 23)	5,775,166	-

### 30. Commitments and contingencies

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

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

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at December 31, 2015 and 2014 contingent liabilities comprised:

	December 31, 2015	December 31, 2014
<b>Contingent liabilities, credit and capital commitments</b>		
Guarantees issued and similar commitments	5,423,332	12,189,115
Commitments on loans and unused credit lines	5,063,989	7,138,639
Contracted capital expenditure	69,300	54,083
Letters of credit and other transaction related contingent obligations	7,970	28,704
	<b>10,564,591</b>	<b>19,410,541</b>
Less allowance for credit related commitments	(1,950,099)	(195,255)
<b>Total contingent liabilities, credit and capital commitments</b>	<b>8,614,492</b>	<b>19,215,286</b>

Movements in allowance for credit related commitments for the years ended December 31, 2015 and 2014 are disclosed in Note 5.

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2015 and 2014 such unused credit lines amount to RUB 4,958,104 thousand and RUB 7,087,575 thousand, respectively.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

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### 30. Commitments and contingencies (continued)

**Fiduciary activities.** In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the customers' funds until such funds or securities are not returned to the customer due to gross negligence or willful misconduct by the Group. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds adjusted by any unrealised gain/loss on the clients' position. In the judgement of management, as at December 31, 2015 and 2014 the maximum potential financial risk on securities accepted by the Group on behalf of its customers does not exceed RUB 12,239,019 thousand and RUB 9,672,201 thousand, respectively.

The Group also provides depositary services to its customers. As at December 31, 2015 and 2014, the Group had 149,870,000 and 735,952,000 customer securities, respectively, in its nominal holder accounts.

**Legal proceedings.** In respect of claims against the Group received from customers and counterparties the management of the Group is of the opinion that no material losses will be incurred other than those that were provided for in these consolidated financial statements.

As of December 31, 2015, the Group (namely East-West United Bank S.A.) has been involved in a court case open against the former management and shareholders of one of its clients, a Latvian Bank. The Group is a third party in relation to the court process and is neither defendant nor claimant in the case. The specific proceedings concern the funds in the amount of EUR 15 million that were pledged by the bank as financial collateral for a loan granted by the Group to a borrower located in Switzerland. The Swiss borrower defaulted and the pledge was exercised by the Group in 2012 in accordance with Luxembourg law and the contractual terms.

The Latvian Bank in 2012 became insolvent. Following this insolvency the Latvian Court in the first instance as well as the Latvian Court of Appeal have ruled that the funds of the insolvent bank placed with the Group have to be returned to the insolvent bank (operated by its liquidator). As of the date of this report the decision of the Latvian Courts has neither been recognized nor enforced in Luxembourg. Funds pledged by the insolvent bank were set off against the defaulted loan and are no longer located in the account at the Group.

In Mid-February 2016 the liquidator of the Latvian Bank has filed a claim against EWUB in the Lithuania courts. The claim concerns the same deal with an increased amount of EUR 41 million. EWUB is in its process of preparing a reply to the notice obtained. Management believes that an outflow of the Group's assets in connection with this claim is not probable as at the reporting date; therefore, no provision was booked in the financial statements.

**Taxation.** Major part of the Group's business activity is carried out in the Russian Federation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open and subject to review by the tax authorities for a period of three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 30. Commitments and contingencies (continued)

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider the transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

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

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 31. Related-party transactions

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Related party transactions	Total category per financial statements caption	Related party transactions	Total category per financial statements caption
Financial assets at fair value through profit or loss	226,038	20,806,639	443,494	21,118,737
- the parent	221,010		393,970	
- entities with joint control or significant influence over the Group	5,028		39,448	
- entities under common control with the Group	-		10,076	
Loans to customers gross of allowance for impairment losses	6,620,959	132,285,719	1,827,286	149,063,316
- entities with joint control or significant influence over the Group	-		2,519	
- entities under common control with the Group	6,555,128		1,819,398	
- key management personnel of the entity or its parent	7,762		5,296	
- other related parties	58,069		73	
Allowance for impairment losses on loans to customers	(225,836)	(46,753,568)	(117,957)	(31,501,465)
- entities with joint control or significant influence over the Group	-		(25)	
- entities under common control with the Group	(225,007)		(117,932)	
- other related parties	(829)		-	
Investments available-for-sale	370,310	7,090,967	207,068	4,896,441
- the parent	370,310		207,068	
Other assets	433,020	1,498,526	468,643	1,853,162
- the parent	202		2,552	
- entities with joint control or significant influence over the Group	140		429	
- entities under common control with the Group	432,678		465,662	
Customer accounts	74,951,909	139,994,091	75,948,089	145,197,208
- the parent	2,445,615		3,536,579	
- entities with joint control or significant influence over the Group	2,148,989		6,252,961	
- entities under common control with the Group	23,552,165		28,935,490	
- key management personnel of the entity or its parent	29,449,542		33,276,588	
- other related parties	17,355,598		3,946,471	
Debt securities issued	651,016	2,587,454	53,469	2,825,250
- entities under common control with the Group	651,016		53,469	

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 31. Related-party transactions (continued)

	December 31, 2015		December 31, 2014	
	Related party transactions	Total category per financial statements caption	Related party transactions	Total category per financial statements caption
Other liabilities	666,190	4,307,451	491,536	2,550,155
- entities with joint control or significant influence over the Group	90,556		72,523	
- entities under common control with the Group	575,634		404,372	
- key management personnel of the entity or its parent	-		14,641	
Subordinated debt	5,773,891	13,319,654	5,347,128	12,059,848
- the parent	3,673,891		3,247,128	
- entities with joint control or significant influence over the Group	2,100,000		2,100,000	
Commitments on loans and unused credit lines	1,879,408	5,063,989	129,687	7,138,639
- entities with joint control or significant influence over the Group	30,000		27,487	
- entities under common control with the Group	1,806,924		102,200	
- other related parties	42,484		-	
Guarantees issued and other commitments	589,196	5,423,332	363,724	12,189,115
- entities under common control with the Group	588,778		341,495	
- key management personnel of the entity or its parent	418		359	
- other related parties	-		21,870	
Guarantees received	21,505,951	298,134,804	1,545,384	344,177,224
- entities under common control with the Group	21,042,974		1,545,384	
- other related parties	462,977		-	

The remuneration of directors and other members of key management was as follows:

	2015		2014	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
-short-term compensation	(157,758)	(4,504,349)	(331,428)	(4,948,400)

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 31. Related-party transactions (continued)

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

	2015		2014	
	Related party transactions	Total category per financial statements caption	Related party transactions	Total category per financial statements caption
Interest income	674,104	20,492,513	301,565	25,102,250
- the parent	196,233		101,772	
- entities with joint control or significant influence over the Group	21,999		2,855	
- entities under common control with the Group	453,842		195,128	
- key management personnel of the entity or its parent	1,420		1,292	
- other related parties	610		518	
Interest expense	(5,028,373)	(9,690,174)	(4,973,470)	(9,863,271)
- the parent	(196,828)		(576,342)	
- entities with joint control or significant influence over the Group	(698,711)		(653,401)	
- entities under common control with the Group	(1,054,620)		(1,801,098)	
- key management personnel of the entity or its parent	(2,657,380)		(1,867,754)	
- other related parties	(420,834)		(74,875)	
(Provision)/recovery of provision for impairment losses on interest bearing assets	(107,879)	(21,442,608)	(54,418)	(20,627,163)
- entities with joint control or significant influence over the Group	25		25	
- entities under common control with the Group	(107,075)		(54,443)	
- other related parties	(829)		-	
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	136,638	152,768	(1,153)	(2,710,103)
- the parent	134,547		(1,083)	
- entities with joint control or significant influence over the Group	(193)		(86)	
- entities under common control with the Group	2,284		16	
Net gain/(loss) on foreign exchange operations	108,136	1,687,955	(923,809)	969,807
- the parent	194,739		34,396	
- entities with joint control or significant influence over the Group	(25,063)		85,272	
- entities under common control with the Group	(14,813)		(1,043,507)	
- other related parties	(46,727)		30	
Fee and commission income	373,238	3,415,752	219,637	4,136,899
- the parent	9,699		8,241	
- entities with joint control or significant influence over the Group	206,363		112,685	
- entities under common control with the Group	143,355		87,231	
- key management personnel of the entity or its parent	-		2,636	
- other related parties	13,821		8,844	

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
(in thousands of Russian Rubles, unless otherwise indicated)

## 31. Related-party transactions (continued)

	2015		2014	
	Related party transactions	Total category per financial statements caption	Related party transactions	Total category per financial statements caption
Fee and commission expense	(167,024)	(1,641,466)	(361,610)	(1,956,369)
- entities with joint control or significant influence over the Group	(20,510)		(14,197)	
- entities under common control with the Group	(146,514)		(347,413)	
Provision for impairment losses on other transactions	-	(2,189,464)	(225,045)	(709,175)
- entities under common control with the Group	-		(225,045)	
Other income	20,077	461,415	120,778	337,292
- the parent	10		10	
- entities with joint control or significant influence over the Group	741		1,617	
- entities under common control with the Group	19,288		119,148	
- other related parties	38		3	
Operating expense (net of staff cost)	(898,147)	(4,315,980)	(863,781)	(4,669,641)
- entities with joint control or significant influence over the Group	(621,259)		(732,769)	
- entities under common control with the Group	(276,888)		(131,012)	

## 32. Segment reporting

The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the chief operating decision maker, Chairman of the Management Board. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

For management purposes, the Group is divided into the following operating segments:

- **Retail banking** – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- **Corporate banking** – full range of banking services provided to large corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- **Investment banking** – comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, treasury functions.
- **Small and medium business (SMB)** – banking services provided to small and medium businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- **Other** – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 32. Segment reporting (continued)

Management reviews the results of each of the segments when making decisions about allocation of resources and assessing their performance.

Segment information about these businesses comprises:

	Retail	Corporate	Investment	SME	Other	December 31, 2015
Interest income	10,713,487	5,524,610	3,176,540	1,077,222	654	20,492,513
Interest expense	(5,641,920)	(2,786,718)	(1,201,639)	(59,866)	(31)	(9,690,174)
Cross-segment revenue/(expenses)	2,236,187	(21,584)	(1,838,040)	(376,563)	-	-
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>	<b>7,307,754</b>	<b>2,716,308</b>	<b>136,861</b>	<b>640,793</b>	<b>623</b>	<b>10,802,339</b>
(Provision)/recovery of provision for impairment losses on interest bearing assets	(8,200,665)	(12,856,389)	126,577	(512,244)	113	(21,442,608)
<b>NET INTEREST (EXPENSE)/INCOME</b>	<b>(892,911)</b>	<b>(10,140,081)</b>	<b>263,438</b>	<b>128,549</b>	<b>736</b>	<b>(10,640,269)</b>
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	152,768	-	-	152,768
Net gain/(loss) on foreign exchange operations	303,698	2,153,759	(748,468)	(21,034)	-	1,687,955
Fee and commission income	2,477,586	475,707	48,366	414,093	-	3,415,752
Fee and commission expense	(1,397,565)	(20,053)	(156,524)	(882)	(66,442)	(1,641,466)
Net loss on operations with investments available-for-sale	-	-	(279,829)	-	-	(279,829)
Provision for losses on other transactions	(191,267)	(1,879,289)	-	-	(118,908)	(2,189,464)
Changes in fair value of investment property	-	-	-	-	(468,830)	(468,830)
Net loss on disposal of investment property	-	-	-	-	(38,751)	(38,751)
Impairment of property and equipment	-	-	-	-	(60,386)	(60,386)
Other income	70,885	10,321	17,821	15,826	346,562	461,415
<b>NET NON-INTEREST INCOME/(EXPENSE)</b>	<b>1,263,337</b>	<b>740,445</b>	<b>(965,866)</b>	<b>408,003</b>	<b>(406,755)</b>	<b>1,039,164</b>
<b>OPERATING INCOME/(EXPENSE)</b>	<b>370,426</b>	<b>(9,399,636)</b>	<b>(702,428)</b>	<b>536,552</b>	<b>(406,019)</b>	<b>(9,601,105)</b>
OPERATING EXPENSES	(5,032,393)	(2,449,435)	(493,888)	(843,525)	(1,088)	(8,820,329)
<b>LOSS BEFORE INCOME TAX</b>	<b>(4,661,967)</b>	<b>(11,849,071)</b>	<b>(1,196,316)</b>	<b>(306,973)</b>	<b>(407,107)</b>	<b>(18,421,434)</b>
Income tax recovery	-	-	-	-	340,372	340,372
<b>NET LOSS</b>	<b>(4,661,967)</b>	<b>(11,849,071)</b>	<b>(1,196,316)</b>	<b>(306,973)</b>	<b>(66,735)</b>	<b>(18,081,062)</b>
Depreciation and amortization charge	472,582	179,459	56,822	84,765	-	793,628
<b>TOTAL ASSETS</b>	<b>38,111,245</b>	<b>43,378,052</b>	<b>83,667,759</b>	<b>4,042,856</b>	<b>12,914,105</b>	<b>182,114,017</b>
<b>TOTAL LIABILITIES</b>	<b>(70,974,639)</b>	<b>(66,601,294)</b>	<b>(20,180,691)</b>	<b>(4,368,256)</b>	<b>(3,228,814)</b>	<b>(165,353,694)</b>



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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(in thousands of Russian Rubles, unless otherwise indicated)

### 32. Segment reporting (continued)

	Retail	Corporate	Investment	SME	Other	December 31, 2014
Interest income	15,666,952	5,016,090	2,984,973	1,434,108	127	25,102,250
Interest expense	(4,555,620)	(3,229,819)	(2,014,379)	(33,098)	(30,355)	(9,863,271)
Cross-segment revenue/(expenses)	(147,160)	849,974	(135,126)	(567,688)	-	-
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>	<b>10,964,172</b>	<b>2,636,245</b>	<b>835,468</b>	<b>833,322</b>	<b>(30,228)</b>	<b>15,238,979</b>
Provision for impairment losses on interest bearing assets	(13,815,077)	(6,102,567)	(111,818)	(597,770)	69	(20,627,163)
<b>NET INTEREST (EXPENSE)/INCOME</b>	<b>(2,850,905)</b>	<b>(3,466,322)</b>	<b>723,650</b>	<b>235,552</b>	<b>(30,159)</b>	<b>(5,388,184)</b>
Net loss on financial assets and liabilities at fair value through profit or loss	-	-	(2,710,103)	-	-	(2,710,103)
Net gain/(loss) on foreign exchange operations	515,564	(638,234)	1,073,055	19,422	-	969,807
Fee and commission income	3,277,251	468,426	17,528	373,694	-	4,136,899
Fee and commission expense	(1,582,599)	(19,002)	(135,128)	(1,966)	(217,674)	(1,956,369)
Net loss on operations with investments available-for-sale	-	-	(132,230)	-	-	(132,230)
Provision for impairment losses on other transactions	-	(298,186)	-	-	(410,989)	(709,175)
Changes in fair value of investment property	-	-	-	-	(984,794)	(984,794)
Net gain on disposal of investment property	-	-	-	-	7,135	7,135
Other income	134,962	25,325	8,439	7,187	161,379	337,292
<b>NET NON-INTEREST INCOME/(EXPENSE)</b>	<b>2,345,178</b>	<b>(461,671)</b>	<b>(1,878,439)</b>	<b>398,337</b>	<b>(1,444,943)</b>	<b>(1,041,538)</b>
<b>OPERATING (EXPENSE)/INCOME</b>	<b>(505,727)</b>	<b>(3,927,993)</b>	<b>(1,154,789)</b>	<b>633,889</b>	<b>(1,475,102)</b>	<b>(6,429,722)</b>
OPERATING EXPENSES	(5,581,412)	(2,362,452)	(613,112)	(1,058,201)	(2,864)	(9,618,041)
<b>LOSS BEFORE INCOME TAX</b>	<b>(6,087,139)</b>	<b>(6,290,445)</b>	<b>(1,767,901)</b>	<b>(424,312)</b>	<b>(1,477,966)</b>	<b>(16,047,763)</b>
Income tax recovery	-	-	-	-	3,005,017	3,005,017
<b>NET (LOSS)/INCOME</b>	<b>(6,087,139)</b>	<b>(6,290,445)</b>	<b>(1,767,901)</b>	<b>(424,312)</b>	<b>1,527,051</b>	<b>(13,042,746)</b>
Depreciation and amortization charge	367,303	136,517	38,820	74,185	-	616,825
<b>TOTAL ASSETS</b>	<b>53,021,981</b>	<b>52,885,815</b>	<b>85,503,223</b>	<b>9,107,687</b>	<b>13,668,048</b>	<b>214,186,754</b>
<b>TOTAL LIABILITIES</b>	<b>(71,247,440)</b>	<b>(68,468,946)</b>	<b>(32,641,310)</b>	<b>(5,009,075)</b>	<b>(4,045,359)</b>	<b>(181,412,130)</b>

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
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## 32. Segment reporting (continued)

The Group operates principally with the Russian Federation. However, management believes, based on the distribution of its operations, that the below breakdown is the most appropriate geographically.

The geographic information comprises:

	RF	OECD countries	Other non- OECD countries	As at and for the year ended December 31, 2015
Revenue	22,945,073	1,299,163	1,118,371	25,362,607
Non-current assets	5,250,565	1,598,486	-	6,849,051

	RF	OECD countries	Other non- OECD countries	As at and for the year ended December 31, 2014
Revenue	24,527,637	134,690	2,063,929	26,726,256
Non-current assets	5,291,952	1,295,983	-	6,587,935

Revenue includes operating income excluding interest expense, fee and commission expense and provision for impairment losses.

## 33. Fair value of financial instruments

Fair value is defined as 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 following tables provides an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December, 2015 and 2014.

	Level 1	Level 2	Level 3	December 31, 2015
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	20,806,639	-	-	20,806,639
Investments available-for-sale	7,028,752	-	-	7,028,752
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	70,236	1,765,912	-	1,836,148

	Level 1	Level 2	Level 3	December 31, 2014
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	21,118,737	-	-	21,118,737
Investments available-for-sale	4,738,139	-	-	4,738,139
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	682,308	821,748	-	1,504,056

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
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## 33. Fair value of financial instruments (continued)

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2015 and 31 December 2014 are as follows:

	December 31, 2015 Fair value	Valuation technique	Inputs used
Interest rate swaps	1,765,912	Discounted cash flows adjusted for embedded options and counterparty credit risk.	Russian rouble curve. USD Dollar Swaps Curve. Counterparty credit risk.
<b>Total recurring fair value measurements at level 2</b>	<b>1,765,912</b>		

	December 31, 2014 Fair value	Valuation technique	Inputs used
Interest rate swaps	821,748	Discounted cash flows adjusted for embedded options and counterparty credit risk.	Russian rouble curve. USD Dollar Swaps Curve. Counterparty credit risk.
<b>Total recurring fair value measurements at level 2</b>	<b>821,748</b>		

Excluded from the table above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at December 31, 2015 and 2014 the carrying value of such investments amounted RUB 62,215 thousand, and RUB 158,302 thousand, respectively.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers and other financial assets and liabilities, there is no reliable market value available for these portfolios.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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

- For loans and advances to personal customers are used variable and fixed rates. As there is no active secondary market in Russia for such loans and advances, there is no reliable market value available for this portfolio. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before the reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.
- Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group’s credit risk and also depend on currency and maturity of the instrument.
- The fair value of derivative instruments are based on discounted cash flow analysis and performed using the management’s best estimates and applicable interest rates.

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities not measured at fair value on a recurring basis and recognized in the consolidated statement of financial position approximate their fair value.

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Due from banks	37,633,015	37,633,015	42,810,413	42,810,413
Loans to customers	85,532,151	85,502,505	117,561,851	116,141,113
<b>Financial liabilities</b>				
Due to Central Bank of the Russian Federation	2,203,169	2,203,169	11,982,925	11,869,201
Due to banks and other financial institutions	693,226	672,130	4,728,121	4,443,179
Customer accounts	139,994,091	139,450,721	145,197,208	142,113,478
Debt securities issued	2,587,454	2,438,219	2,825,250	2,630,779
Subordinated debt	13,319,654	12,856,948	12,059,848	9,834,187

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost as at 31 December, 2015 and 2014.

	Level 1	Level 2	Level 3	December 31, 2015
<b>Financial assets</b>				
Due from banks	-	37,633,015	-	<b>37,633,015</b>
Loans to customers	-	-	85,502,505	<b>85,502,505</b>
<b>Financial liabilities</b>				
Due to Central Bank of the Russian Federation	-	2,203,169	-	<b>2,203,169</b>
Due to banks and other financial institutions	-	672,130	-	<b>672,130</b>
Customer accounts	-	-	139,450,721	<b>139,450,721</b>
Debt securities issued	1,280,263	1,157,955	-	<b>2,438,219</b>
Subordinated debt	3,684,949	9,171,999	-	<b>12,856,948</b>

	Level 1	Level 2	Level 3	December 31, 2014
<b>Financial assets</b>				
Due from banks	-	42,810,413	-	<b>42,810,413</b>
Loans to customers	-	-	116,141,113	<b>116,141,113</b>
<b>Financial liabilities</b>				
Due to Central Bank of the Russian Federation	-	11,869,201	-	<b>11,869,201</b>
Due to banks and other financial institutions	-	4,443,179	-	<b>4,443,179</b>
Customer accounts	-	-	142,113,478	<b>142,113,478</b>
Debt securities issued	1,721,844	908,935	-	<b>2,630,779</b>
Subordinated debt	2,789,015	7,045,172	-	<b>9,834,187</b>

There were no transfers between Levels during 2015 and 2014 years.

### 34. Capital risk management

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

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 27, and equity attributable to owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Management Board, the Group adjusts the capital structure by paying dividends, issuing additional shares, taking additional loans or paying on existing loans.

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

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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### 34. Capital risk management (continued)

The CBR requires that the banks comply with the minimum capital adequacy ratios of 10% calculated on the basis of the statutory financial statements of the banks. During the years ended December 31, 2015 and 2014 the Bank met the capital adequacy requirements established by the CBR. As at December 31, 2015 and 2014 the Bank's capital adequacy ratio in accordance with CBR requirements was 18.3% and 16.1% respectively.

Commission de Surveillance du Secteur Financier (the “CSSF”) of Luxembourg requires banks to maintain a statutory capital adequacy ratio computed based on Luxembourgian Accounting Standards. As at December 31, 2015 and 2014 East-West United Bank S.A. was in compliance with the capital requirements imposed by the CSSF.

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

	December 31, 2015	December 31, 2014
<b>Tier 1 capital</b>		
Share capital	4,088,146	4,088,146
Share premium	18,386,416	25,508,439
Accumulated deficit	(14,087,165)	(3,732,625)
Non-controlling interest	4,013,498	3,885,516
<b>Total Tier 1 capital (principal capital)</b>	<b>12,400,895</b>	<b>29,749,476</b>
<b>Tier 2 capital</b>		
Investments available-for-sale fair value reserve	194,362	(95,672)
Cumulative translation reserve	4,016,991	2,967,292
Revaluation reserve	148,075	153,528
Subordinated debt	6,200,447	9,821,135
<b>Total Tier 2 capital</b>	<b>10,559,875</b>	<b>12,846,283</b>
<b>Total capital</b>	<b>22,960,770</b>	<b>42,595,759</b>
Capital ratios:		
Tier 1 capital	9.12%	17.82%
Total capital	16.88%	25.52%

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

As at December 31, 2015 and 2014, the Group included in the computation of Tier 2 capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of Bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 35. Risk management policies

Management of risk is fundamental to the Group's Banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

**Credit Risk.** The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector, including banks and brokers are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group monitors its loan portfolio on a regular basis. As well as ensuring that the borrower fulfils its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyzes financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio per borrower, group of borrowers or industry.

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

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

**Maximum exposure.** The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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### 35. Risk management policies (continued)

	December 31, 2015		December 31, 2014	
	Maximum exposure	Collateral pledged	Maximum exposure	Collateral pledged
Balances with the Central Banks	12,440,555	-	7,408,061	-
Financial assets at fair value through profit or loss, less equity securities	20,806,639	-	21,109,453	-
Due from banks	37,633,015	352,364	42,810,413	334,791
Loans to customers	85,532,151	53,174,976	117,561,851	59,835,128
Investments available-for-sale, less equity securities and investments in venture funds	6,886,603	-	4,645,378	-
Other financial assets	587,552	-	933,369	-
Guarantees issued and similar commitments	5,423,332	2,680,595	12,189,115	4,579,773
Letters of credit and other transaction related contingent liabilities	7,970	-	28,704	-
Commitments on loans and unused lines of credits	5,063,989	-	7,138,639	-

Collateral for due from banks (Note 15), and collateral for Loans to customers is stated at minimum of fair value of collateral and carrying amount of loans (Note 16).

As at December 31, 2015 balances with the Central Bank of Russian Federation and Central Bank of Luxembourg amounted to RUB 12,095,546 thousand and RUB 345,009 thousand, respectively. As at December 31, 2014 balances with the Central Bank of Russian Federation and Central Bank of Luxembourg amounted to RUB 7,016,321 thousand and RUB 391,740 thousand, respectively. The credit rating of the Russian Federation according to S&P rating agency was decreased from BBB- to BB+ in January 2015. In February 2015, following the S&P decision Moody's rating agency downgraded the rating to Ba1. The credit rating of Luxembourg according to the international rating agencies in 2015 and 2014 corresponded to investment level AAA.

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group as at December 31, 2015 that are neither impaired nor past due:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2015 Total
Financial assets at fair value through profit or loss, less equity securities	-	-	-	11,770,683	9,018,002	17,954	20,806,639
Due from banks	-	2,399,124	15,992,196	7,126,540	10,285,553	1,829,602	37,633,015
Investments available-for-sale, less equity securities and investment in venture fund	-	2,747,179	-	942,369	3,190,822	6,233	6,886,603



# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
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## 35. Risk management policies (continued)

As at December 31, 2014:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2014 Total
Financial assets at fair value through profit or loss, less equity securities	-	-	-	15,282,832	5,817,206	9,414	21,109,453
Due from banks	-	11,064,762	16,888,216	9,001,897	4,343,199	1,512,339	42,810,413
Investments available-for-sale, less equity securities and investment in venture fund	-	-	-	529,360	4,116,018	-	4,645,378

As at 31 December 2015 and 2014 not rated amounts due from banks includes repurchase agreements in the amount of RUB 303,092 thousand and RUB 333,376 thousand, respectively.

Loans to customers detailed by credit quality categories according to the Group's proprietary credit quality rating methodology are presented below.

	Legal entities	Individuals	Total December 31, 2015	Legal entities	Individuals	Total December 31, 2014
Top performing loans	32,589,635	32,793,554	65,383,189	46,681,653	45,434,305	92,115,958
Moderately performing loans	8,086,061	5,876,112	13,962,173	16,683,257	6,911,166	23,594,423
Other	32,040,075	20,900,282	52,940,357	12,396,409	20,956,526	33,352,935
<b>Total</b>	<b>72,715,771</b>	<b>59,569,948</b>	<b>132,285,719</b>	<b>75,761,319</b>	<b>73,301,997</b>	<b>149,063,316</b>

The “Top performing” category with low credit risk includes loans with no past due status that are granted to borrowers that have a good credit history with the Group and other creditors; with no signs of decline of their financial sustainability.

The “Moderately performing” category with temperate credit risk includes loans that are granted to borrowers with good credit history with the Group and other creditors with minor exceptions in the past or that have the status of technically overdue at the reporting date; that are characterized by average financial sustainability at the moment.

The “Other” category includes loans that are granted to borrowers that do not fall within the two categories described above.

The Banking industry is generally exposed to credit risk through its loans to customers and inter Bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation and Luxembourg.

The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

**Geographical concentration.** The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the RF.

# Public Joint-Stock Company “MTS Bank”

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2015  
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## 35. Risk management policies (continued)

The geographical concentration of assets and liabilities is set out below as at December 31, 2015 and 2014:

	Russia	Other non-OECD countries	OECD countries	December 31, 2015 Total
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Banks	18,007,193	-	1,166,607	19,173,800
Financial assets at fair value through profit or loss	16,850,652	-	3,955,987	20,806,639
Due from banks	16,120,125	292,299	21,220,591	37,633,015
Loans to customers	65,864,664	2,714,705	16,952,782	85,532,151
Investments available-for-sale	2,218,590	916,390	3,955,987	7,090,967
Other financial assets	526,504	-	61,048	587,552
<b>TOTAL FINANCIAL ASSETS</b>	<b>119,587,728</b>	<b>3,923,394</b>	<b>47,313,002</b>	<b>170,824,124</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	1,774,701	-	61,447	1,836,148
Due to the Central Bank of the Russian Federation	2,203,169	-	-	2,203,169
Due to banks and other financial institutions	162,650	1,401	529,175	693,226
Customer accounts	101,254,315	29,638,969	9,100,807	139,994,091
Debt securities issued	2,587,454	-	-	2,587,454
Other financial liabilities	1,578,519	-	53,238	1,631,757
Subordinated debt	9,499,778	-	3,819,876	13,319,654
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>119,060,586</b>	<b>29,640,370</b>	<b>13,564,543</b>	<b>162,265,499</b>
	Russia	Other non-OECD countries	OECD countries	December 31, 2014 Total
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Banks	15,552,451	-	419,829	15,972,280
Financial assets at fair value through profit or loss	21,118,737	-	-	21,118,737
Due from banks	10,360,947	358,485	32,090,981	42,810,413
Loans to customers	95,040,679	6,472,397	16,048,775	117,561,851
Investments available-for-sale	292,394	3,006,267	1,597,780	4,896,441
Other financial assets	728,341	-	205,028	933,369
<b>TOTAL FINANCIAL ASSETS</b>	<b>143,093,549</b>	<b>9,837,149</b>	<b>50,362,393</b>	<b>203,293,091</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	1,281,874	-	222,182	1,504,056
Due to the Central Bank of the Russian Federation	11,982,925	-	-	11,982,925
Due to banks and other financial institutions	1,805,840	117,416	2,804,865	4,728,121
Customer accounts	110,926,097	30,481,289	3,789,822	145,197,208
Debt securities issued	2,825,250	-	-	2,825,250
Other financial liabilities	1,489,159	-	262,709	1,751,868
Subordinated debt	9,120,531	-	2,939,317	12,059,848
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>139,431,676</b>	<b>30,598,705</b>	<b>10,018,895</b>	<b>180,049,276</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

*(in thousands of Russian Rubles, unless otherwise indicated)*

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### 35. Risk management policies (continued)

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

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and Banking operations, which is a part of assets/liabilities management process.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, the Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances.

The Group aims to match the terms of loans and deposits. A daily analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. For liquidity management purposes, the Group calculates expected liquidity surpluses/shortfalls over various time periods both on the basis of contractual maturity of assets and liabilities and on the basis of cash flow forecasts under “business as usual scenario” assuming the behavior of depositors is similar to the trends observed in the previous period and there are no significant credit losses or withdrawals of customer deposits.

Stress testing is also carried out regularly based on the three hypothetical scenarios. The use of these scenarios provides the opportunity to analyze the impact of a combination of negative factors on the Group's liquidity position including the assessment of the survival period of the Group. The resulting assessment of the survival period is then compared to the minimum limits set by the internal regulations.

The review of liquidity and interest rate risks is provided below:

- (a) The term to maturity of non-derivative financial liabilities, calculated for undiscounted cash flows on financial liabilities (principal amount and interest) using the earliest of the dates when the Group will have to settle the liability, and
- (b) Estimated term to maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual maturities, except the cases when the Group expects that cash flows will be received at a different time.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2015 (in thousands of Russian Rubles, unless otherwise indicated)

### 35. Risk management policies (continued)

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue, maturity undefined	December 31, 2015 Total
<b>FINANCIAL ASSETS</b>							
Financial assets at fair value through profit or loss	18,502,196	2,304,443	-	-	-	-	20,806,639
Due from banks	11,700,798	1,824,292	3,294,482	1,671,568	-	763,973	19,255,113
Loans to customers	1,961,990	4,113,662	18,599,220	37,882,700	15,207,589	7,766,990	85,532,151
Investments available-for-sale	155,763	74,673	21,749	5,063,278	1,571,140	-	6,886,603
<b>Total interest bearing financial assets</b>	<b>32,320,747</b>	<b>8,317,070</b>	<b>21,915,451</b>	<b>44,617,546</b>	<b>16,778,729</b>	<b>8,530,963</b>	<b>132,480,506</b>
Cash and balances with the Central Banks	18,172,092	-	-	-	-	1,001,708	19,173,800
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Due from banks	17,663,581	-	-	-	-	714,321	18,377,902
Investments available-for-sale	-	-	-	-	-	204,364	204,364
Other financial assets	161,213	6,909	419,364	-	-	66	587,552
<b>Total financial assets</b>	<b>68,317,633</b>	<b>8,323,979</b>	<b>22,334,815</b>	<b>44,617,546</b>	<b>16,778,729</b>	<b>10,451,422</b>	<b>170,824,124</b>
<b>FINANCIAL LIABILITIES</b>							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Due to the Central Bank of the Russian Federation	-	2,203,169	-	-	-	-	2,203,169
Due to banks and other financial institutions	119,364	-	169,208	385,413	-	-	673,985
Customer accounts	17,667,506	10,392,118	67,714,278	1,897,148	22,265	-	97,693,315
Debt securities issued	657,415	87,170	645,424	501,311	696,134	-	2,587,454
Subordinated debt	-	3,819,876	-	-	9,499,778	-	13,319,654
<b>Total interest bearing financial liabilities</b>	<b>18,444,285</b>	<b>16,502,333</b>	<b>68,528,910</b>	<b>2,783,872</b>	<b>10,218,177</b>	<b>-</b>	<b>116,477,577</b>
Financial liabilities at fair value through profit or loss	4,499	36,175	(59,152)	1,854,626	-	-	1,836,148
Due to banks and other financial institutions	19,241	-	-	-	-	-	19,241
Customer accounts	42,300,776	-	-	-	-	-	42,300,776
Other financial liabilities	431,541	579,203	621,013	-	-	-	1,631,757
<b>Total financial liabilities</b>	<b>61,200,342</b>	<b>17,117,711</b>	<b>69,090,771</b>	<b>4,638,498</b>	<b>10,218,177</b>	<b>-</b>	<b>162,265,499</b>
<b>Liquidity gap</b>	<b>7,117,291</b>	<b>(8,793,732)</b>	<b>(46,755,956)</b>	<b>39,979,048</b>	<b>6,560,552</b>		
<b>Stable sources of funding</b>	<b>21,598,872</b>	<b>333,367</b>	<b>24,756,523</b>	<b>(6,036,606)</b>	<b>(40,652,156)</b>		
<b>Adjusted liquidity gap</b>	<b>28,716,163</b>	<b>(8,460,365)</b>	<b>(21,999,433)</b>	<b>33,942,442</b>	<b>(34,091,604)</b>		
<b>Interest sensitivity gap</b>	<b>13,876,462</b>	<b>(8,185,263)</b>	<b>(46,613,459)</b>	<b>41,833,674</b>	<b>6,560,552</b>		
<b>Cumulative interest sensitivity gap</b>	<b>13,876,462</b>	<b>5,691,199</b>	<b>(40,922,260)</b>	<b>911,414</b>	<b>7,471,966</b>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>	<b>8.12%</b>	<b>3.33%</b>	<b>-23.96%</b>	<b>0.53%</b>	<b>4.37%</b>		

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 35. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue, maturity undefined	December 31, 2014 Total
<b>FINANCIAL ASSETS</b>							
Financial assets at fair value through profit or loss	20,214,051	-	895,402	-	-	-	21,109,453
Due from banks	5,918,934	345,924	4,330,862	964,387	-	1,623,280	13,183,387
Loans to customers	4,314,379	10,822,001	24,287,767	49,698,955	17,738,927	10,699,822	117,561,851
Investments available-for-sale	-	475,849	394,059	3,553,595	221,875	-	4,645,378
<b>Total interest bearing financial assets</b>	<b>30,447,364</b>	<b>11,643,774</b>	<b>29,908,090</b>	<b>54,216,937</b>	<b>17,960,802</b>	<b>12,323,102</b>	<b>156,500,069</b>
Cash and balances with the Central Banks	14,172,133	-	-	-	-	1,800,147	15,972,280
Financial assets at fair value through profit or loss	-	-	-	-	-	9,284	9,284
Due from banks	29,624,720	-	-	-	-	2,306	29,627,026
Investments available-for-sale	-	-	-	-	-	251,063	251,063
Other financial assets	28,569	309,937	594,863	-	-	-	933,369
<b>Total financial assets</b>	<b>74,272,786</b>	<b>11,953,711</b>	<b>30,502,953</b>	<b>54,216,937</b>	<b>17,960,802</b>	<b>14,385,902</b>	<b>203,293,091</b>
<b>FINANCIAL LIABILITIES</b>							
Financial liabilities at fair value through profit or loss	459,994	(34,417)	(163,476)	1,019,773	-	-	1,281,874
Due to the Central Bank of the Russian Federation	6,438,167	3,208,260	2,336,498	-	-	-	11,982,925
Due to banks and other financial institutions	2,454,938	112,179	1,479,146	584,901	-	-	4,631,164
Customer accounts	48,351,352	8,709,440	50,295,281	8,688,900	22,606	-	116,067,579
Debt securities issued	449,678	172,061	755,066	814,437	634,008	-	2,825,250
Subordinated debt	295,220	182,649	499,180	4,328,059	6,754,740	-	12,059,848
<b>Total interest bearing financial liabilities</b>	<b>58,449,349</b>	<b>12,350,172</b>	<b>55,201,695</b>	<b>15,436,070</b>	<b>7,411,354</b>	<b>-</b>	<b>148,848,640</b>
Financial liabilities at fair value through profit or loss	222,182	-	-	-	-	-	222,182
Due to banks and other financial institutions	96,957	-	-	-	-	-	96,957
Customer accounts	29,129,629	-	-	-	-	-	29,129,629
Other financial liabilities	1,176,603	111,896	463,369	-	-	-	1,751,868
<b>Total financial liabilities</b>	<b>89,074,720</b>	<b>12,462,068</b>	<b>55,665,064</b>	<b>15,436,070</b>	<b>7,411,354</b>	<b>-</b>	<b>180,049,276</b>
<b>Liquidity gap</b>	<b>(14,801,934)</b>	<b>(508,357)</b>	<b>(25,162,111)</b>	<b>38,780,867</b>	<b>10,549,448</b>		
<b>Stable sources of funding</b>	<b>22,410,871</b>	<b>(5,602,718)</b>	<b>(16,808,153)</b>	<b>(5,269,803)</b>	<b>-</b>		
<b>Adjusted liquidity gap</b>	<b>7,608,937</b>	<b>(6,111,075)</b>	<b>(41,970,264)</b>	<b>33,511,064</b>	<b>10,549,448</b>		
<b>Interest sensitivity gap</b>	<b>(28,001,985)</b>	<b>(706,398)</b>	<b>(25,293,605)</b>	<b>38,780,867</b>	<b>10,549,448</b>		
<b>Cumulative interest sensitivity gap</b>	<b>(28,001,985)</b>	<b>(28,708,383)</b>	<b>(54,001,988)</b>	<b>(15,221,121)</b>	<b>(4,671,673)</b>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>	<b>-13.77%</b>	<b>-14.12%</b>	<b>-26.56%</b>	<b>-7.49%</b>	<b>-2.30%</b>		

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a stable source of funding for the Group. Customer accounts on demand are split into the groups by type of client and allocated per expected time of funds outflow on the basis of statistical data accumulated during the previous year. Although management believes that these components of customer accounts are a stable source of funding, they are conservatively presented in the above disclosure as due within one year (as due within 5 years for comparative period).

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

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### 35. Risk management policies (continued)

Significant part of the Group's current accounts refers to related parties. Management believes that these accounts (including term deposits) will remain within the Group and support the Group's liquidity position.

The Group's medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralized loans which allow the Group to reduce the negative medium-term liquidity gaps.

Further analysis of the liquidity and interest rate risks is presented in the following tables. The amounts in the tables below are not the same as the amounts in the statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average effective rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
Financial liabilities at fair value through profit or loss	0%	-	-	-	-	-	-
Due to the Central Bank of the Russian Federation	1%	-	2,206,642	-	-	-	2,206,642
Due to banks and other financial institutions	5%	119,715	-	172,572	417,222	-	709,509
Customer accounts	10%	17,808,029	10,636,704	74,355,741	3,026,492	46,993	105,873,959
Debt securities issued	11%	659,564	109,885	779,280	905,715	908,349	3,362,793
Subordinated debt	7%	289,831	3,965,744	422,352	2,054,700	6,478,449	13,211,076
<b>Total interest bearing financial liabilities</b>		<b>18,877,139</b>	<b>16,918,975</b>	<b>75,729,945</b>	<b>6,404,129</b>	<b>7,433,791</b>	<b>125,363,979</b>
Financial liabilities at fair value through profit or loss		4,499	35,239	(68,379)	1,717,761	-	1,689,120
Due to banks and other financial institutions		19,241	-	-	-	-	19,241
Customer accounts		42,300,776	-	-	-	-	42,300,776
Other financial liabilities		431,541	579,203	621,013	-	-	1,631,757
<b>Total financial liabilities</b>		<b>61,633,196</b>	<b>17,533,417</b>	<b>76,282,579</b>	<b>8,121,890</b>	<b>7,433,791</b>	<b>171,004,873</b>

	Weighted average effective rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
Financial liabilities at fair value through profit or loss		459,994	(36,549)	(191,110)	721,733	-	954,068
Due to the Central Bank of the Russian Federation	9.60%	6,463,568	3,258,891	2,477,846	-	-	12,200,304
Due to banks and other financial institutions	7.11%	2,462,111	113,490	1,545,418	709,665	-	4,830,685
Customer accounts	10.46%	18,972,340	8,686,020	48,853,515	11,089,812	8,644	87,610,331
Debt securities issued	9.96%	452,517	174,104	804,832	1,099,264	1,503,349	4,034,067
Subordinated debt	5.72%	295,830	185,081	532,511	5,031,239	10,117,353	16,162,014
<b>Total interest bearing financial liabilities</b>		<b>28,646,366</b>	<b>12,417,586</b>	<b>54,214,122</b>	<b>17,929,980</b>	<b>11,629,347</b>	<b>124,837,400</b>
Financial liabilities at fair value through profit or loss		222,182	-	-	-	-	222,182
Due to banks and other financial institutions		96,957	-	-	-	-	96,957
Customer accounts		29,129,629	-	-	-	-	29,129,629
Other financial liabilities		1,176,603	111,896	463,369	-	-	1,751,868
<b>Total financial liabilities</b>		<b>59,271,737</b>	<b>12,529,482</b>	<b>54,677,491</b>	<b>17,929,980</b>	<b>11,629,347</b>	<b>156,038,036</b>

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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### 35. Risk management policies (continued)

A maturity analysis for financial guarantee issued, commitments on loans and unused credit lines and contracted capital expenditure is presented in following tables.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
Guarantees issued, letters of credit and similar commitments	801,342	1,238,849	2,693,248	659,673	38,190	5,431,302
Commitments on loans and unused credit lines	253,199	506,399	1,519,197	2,785,194	-	5,063,989
Contracted capital expenditure	69,300	-	-	-	-	54,083
<b>Total contingent liabilities</b>	<b>1,123,841</b>	<b>1,745,248</b>	<b>4,212,445</b>	<b>3,444,867</b>	<b>38,190</b>	<b>10,549,374</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
Guarantees issued, letters of credit and similar commitments	1,580,399	5,857,826	2,749,728	2,000,387	29478.6653	12,217,819
Commitments on loans and unused credit lines	356,932	713,864	2,141,592	3,926,251	-	7,138,639
Contracted capital expenditure	54,083	-	-	-	-	54,083
<b>Total contingent liabilities</b>	<b>1,991,414</b>	<b>6,571,689</b>	<b>4,891,320</b>	<b>5,926,639</b>	<b>29,479</b>	<b>19,410,541</b>

**Market Risk.** Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Assessment and Control Department to assess these types of risks, and the composition and contents of management reports presented to the Group's management bodies.

The Group's Limit Committee sets stop-loss limits on securities portfolios and foreign currency operations, and caps on positions for certain types of securities and foreign currencies. The open foreign currency position limits are fully in compliance with the requirements of the CBR. Compliance with the market risk limits of the Group are monitored on a daily basis.

**Interest rate sensitivity.** The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Assessment and Control Department conducts monitoring of the Group's current financial performance, estimates of the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at December 31, 2015 and 2014 is as follows:

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period with maturity in one year. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 400 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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## Notes to the Consolidated Financial Statements (continued)

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### 35. Risk management policies (continued)

If interest rates had been 400 basis points (2014: 500 basis points) higher/lower and all other variables were held constant, impact on profit before tax based on asset values as at December 31, 2015 and 2014 would have been as follows:

	As at December 31, 2015		As at December 31, 2014	
	Interest rate 4%	Interest rate -4%	Interest rate 5%	Interest rate -5%
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss	832,266	(832,266)	1,010,703	(1,010,703)
Due from banks	672,783	(672,783)	313,243	(313,243)
Loans to customers	986,995	(986,995)	756,819	(756,819)
Investments available-for-sale	10,087	(10,087)	23,792	(23,792)
<b>Financial liabilities:</b>				
Financial liabilities at fair value through profit or loss	-	-	(21,279)	21,279
Due to the Central Bank of the Russian Federation	(88,127)	88,127	(482,321)	482,321
Due to banks and other financial institutions	(11,466)	11,466	(128,356)	128,356
Customer accounts	(3,830,958)	3,830,958	(2,853,040)	2,853,040
Debt securities issued	(55,600)	55,600	(31,087)	31,087
Subordinated debt	(152,795)	152,795	(23,893)	23,893
Net impact on profit before tax	(1,636,816)	1,636,816	(1,435,419)	1,435,419
Net impact on shareholders equity	(1,309,453)	1,309,453	(1,148,335)	1,148,335



# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

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### 35. Risk management policies (continued)

**Currency risk.** Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

As at December 31, 2015 the Group’s breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD USD 1 = RUB 72.8827	EUR EUR 1 = RUB 79.6972	Other currency	December 31, 2015 Total
<b>Non-derivative financial assets</b>					
Cash and balances with the Central Banks	16,565,663	814,193	1,777,604	16,340	19,173,800
Financial assets at fair value through profit or loss	10,774,269	9,225,565	798,437	-	20,798,271
Due from banks	9,737,976	14,295,442	12,981,704	617,893	37,633,015
Loans to customers	66,495,477	12,076,224	6,839,901	120,549	85,532,151
Investments available-for-sale	62,208	5,407,656	1,621,103	-	7,090,967
Other financial assets	535,234	7,996	41,851	2,471	587,552
<b>Total non-derivative financial assets</b>	<b>104,170,827</b>	<b>41,827,076</b>	<b>24,060,600</b>	<b>757,253</b>	<b>170,815,756</b>
<b>Non-derivative financial liabilities</b>					
Due to the Central Bank of the Russian Federation	-	2,203,169	-	-	2,203,169
Due to banks and other financial institutions	285,794	174,994	232,189	249	693,226
Customer accounts	89,817,892	35,843,651	13,707,958	624,590	139,994,091
Debt securities issued	2,583,810	3,644	-	-	2,587,454
Other financial liabilities	1,546,689	24,236	60,793	39	1,631,757
Subordinated debt	6,884,859	3,819,876	2,614,919	-	13,319,654
<b>Total non-derivative financial liabilities</b>	<b>101,119,044</b>	<b>42,069,570</b>	<b>16,615,859</b>	<b>624,878</b>	<b>160,429,351</b>
<b>Financial assets less financial liabilities</b>	<b>3,051,783</b>	<b>(242,494)</b>	<b>7,444,741</b>	<b>132,375</b>	

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the Group, except for East-West United Bank S.A. is the Russian ruble. The functional currency of East-West United Bank S.A. is Euro.

As at December 31, 2015 the Group’s foreign currency short position, net of balances of East-West United Bank S.A. (functional currency – Russian ruble), was RUB 5,060,247 thousand for US dollars, RUB 434,507 thousand for Euro and RUB 18,606 thousand for other currencies.

As at December 31, 2015 the foreign currency short position of East-West United Bank S.A. (functional currency – Euro) was RUB 18,330 thousand for Russian rubles and RUB 1,076,072 for US dollars. As at December 31, 2015 the foreign currency long position of East-West United Bank S.A. was RUB 37,936 thousand for other currencies.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 35. Risk management policies (continued)

As at December 31, 2014 the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD USD 1 = RUB 56.2584	EUR EUR 1 = RUB 68.3427	Other currency	December 31, 2014 Total
<b>Non-derivative financial assets</b>					
Cash and balances with the Central Banks	14,118,375	766,606	1,063,589	23,710	15,972,280
Financial assets at fair value through profit or loss	12,044,781	8,185,547	888,409	-	21,118,737
Due from banks	7,011,168	22,255,786	13,393,092	150,367	42,810,413
Loans to customers	92,295,418	15,225,398	9,519,778	521,257	117,561,851
Investments available-for-sale	158,289	4,207,892	530,260	-	4,896,441
Other financial assets	700,962	21,623	210,784	-	933,369
<b>Total non-derivative financial assets</b>	<b>126,328,993</b>	<b>50,662,852</b>	<b>25,605,912</b>	<b>695,334</b>	<b>203,293,091</b>
<b>Non-derivative financial liabilities</b>					
Financial liabilities at fair value through profit or loss	68,072	391,921	-	-	459,993
Due to the Central Bank of the Russian Federation	6,488,821	5,494,104	-	-	11,982,925
Due to banks and other financial institutions	1,900,004	2,415,264	411,684	1,169	4,728,121
Customer accounts	94,791,544	32,133,838	18,137,792	134,034	145,197,208
Debt securities issued	2,825,250	-	-	-	2,825,250
Other financial liabilities	1,727,434	21,872	2,383	179	1,751,868
Subordinated debt	6,885,594	2,939,317	2,234,937	-	12,059,848
<b>Total non-derivative financial liabilities</b>	<b>114,686,719</b>	<b>43,396,316</b>	<b>20,786,796</b>	<b>135,382</b>	<b>179,005,213</b>
<b>Financial assets less financial liabilities</b>	<b>11,642,274</b>	<b>7,266,536</b>	<b>4,819,116</b>	<b>559,952</b>	

As at December 31, 2014 the Group's foreign currency short position, net of balances of East-West United Bank S.A. (functional currency – Russian ruble), was RUB 323,221 thousand for US dollars and RUB 648,847 thousand for Euro. As at December 31, 2014 the Group's foreign currency long position, net of balances of East-West United Bank S.A., was RUB 59,786 thousand for other currencies.

As at December 31, 2014 the foreign currency short position of East-West United Bank S.A. (functional currency – Euro) was RUB 3,075 thousand for other currencies. As at December 31, 2014 the foreign currency long position of East-West United Bank S.A. was RUB 592,053 thousand for US dollars and RUB 104,838 thousand for other currencies.

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 35. Risk management policies (continued)

**Derivative financial instruments.** Transactions using the derivative financial instruments (“derivative instruments”) include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or require investment in small amount and with respect to which the calculation is made as at the future date.

Fair values of derivative instruments are included in the currency analysis presented above. The following tables present further analysis of currency risk by types of derivative financial instruments contracts as at December 31, 2015 and 2014:

	RUB	USD USD 1 = RUB 72.8827	EUR EUR 1 = RUB 79.6972	Other currency	December 31, 2015 Total
Accounts payable on derivative contracts	(1,535,934)	(5,508,880)	-	(111,733)	(7,156,547)
Accounts receivable on derivative contracts	1,928,719	910,500	2,489,548	-	5,328,767
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>392,785</b>	<b>(4,598,380)</b>	<b>2,489,548</b>	<b>(111,733)</b>	<b>(1,827,780)</b>

	RUB	USD USD 1 = RUB 56.2584	EUR EUR 1 = RUB 68.3427	Other currency	December 31, 2014 Total
Accounts payable on derivative contracts	(24,786)	(8,134,091)	-	-	(8,158,877)
Accounts receivable on derivative contracts	1,950,509	527,371	4,636,934	-	7,114,814
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>1,925,723</b>	<b>(7,606,720)</b>	<b>4,636,934</b>	<b>-</b>	<b>(1,044,063)</b>

**Currency risk sensitivity.** The following table details the Group’s sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates as at December 31, 2015 and 2014. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at December 31, 2015 and 2014:

	As at December 31, 2015		As at December 31, 2014	
	RUB/USD 30.00%	RUB/USD -30.00%	RUB/USD 30.00%	RUB/USD -30.00%
Impact on profit/loss before tax	(1,261,873)	1,261,873	1,866,742	(1,866,742)
Impact on equity	(1,009,499)	1,009,499	1,493,394	(1,493,394)
	RUB/EUR 30.00%	RUB/EUR -30.00%	RUB/EUR 30.00%	RUB/EUR -30.00%
Impact on profit/loss before tax	3,059,609	(3,059,609)	1,445,735	(1,445,735)
Impact on equity	2,447,687	(2,447,687)	1,156,588	(1,156,588)

# Public Joint-Stock Company “MTS Bank”

## Notes to the Consolidated Financial Statements (continued)

for the Year Ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

### 35. Risk management policies (continued)

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

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

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

**Price risk.** Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

In 2015, the Group's policy was aimed at minimizing the pricing risk which arises from stock market instruments. There is no change in the Group policy since 2014.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for equity investments at the reporting date.

The results of the analysis of the sensitivity of the Group's profit before tax and equity for the year to changes in prices of securities on a simplified scenario of symmetrical increase or decrease in all securities prices are given in the table below:

	As at December 31, 2015		As at December 31, 2014	
	30.00% increase in securities price	30.00% decrease in securities price	30.00% increase in securities price	30.00% decrease in securities price
Impact on profit before tax	-	-	2,785	(2,785)
Impact on equity	42,504	(42,504)	30,651	(30,651)

### 36. Subsequent events

In February 2016 PJSC “MTS Bank” issued 3,588,304 ordinary shares with par value of RUB 500 each for RUB 5,023,626 thousand. The issue was divided between JSFC Sistema and Mobile Telesystems B.V. in the amount of 2,641,957 and 946,347 shares respectively. This transaction is carried on as a conversion of subordinated loans previously received from the shareholders.

In March 2016 the Group has repayed subordinated eurobonds in the amount of USD 60,000 thousand.