Financial statements
CentroCredit Bank
for the year ended 31 December 2016

with independent auditor's report

April 2017

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Independent auditor's report

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To the shareholders and Board of Directors of CentroCredit Bank

Report on the audit of the financial statements

We have audited the accompanying financial statements of CentroCredit joint-stock commercial bank (joint-stock company) (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CentroCredit Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

Management of CentroCredit Bank is responsible for compliance of the Bank with the mandatory prudential ratios (hereinafter, the “obligatory ratios”) established by the Central Bank of the Russian Federation (the “Bank of Russia”) and for compliance of the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation of such systems.

In accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the “Federal Law”), during the audit of the Bank’s financial statements for the year ended 31 December 2016, we determined:

1) Whether the Bank complied as at 1 January 2017 with the obligatory ratios established by the Bank of Russia;
2) Whether the internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - subordination of risk management departments;
   - the existence of methodologies, approved by the Bank’s respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank ;
   - oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank’s compliance with risk limits and capital adequacy requirements set forth in the Bank’s internal documents, and effectiveness and consistency of the application of the Bank’s risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

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Compliance by the Bank with the the obligatory ratios established by the Bank of Russia

We found that the values of obligatory ratios of the Bank as of 1 January 2017 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

Compliance by the internal control and risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to these systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2016 the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at 31 December 2016 that establish the methodologies for detecting and managing credit, market, operational and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2016, the Bank had a reporting system pertaining to credit, market, operational and liquidity risks that were significant to the Bank, and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of credit, market, operational and liquidity risks of the Bank complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2016, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2016, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

21 April 2017

Details of the audited entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002; State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Statement of financial position

as at 31 December 2016

(thousands of Russian rubles)

	Notes	*2016*	*2015*
Assets			
Cash and accounts with the CBR	5	3,472,548	6,267,134
Financial assets at fair value through profit or loss	6	20,961,198	24,252,958
Financial assets at fair value through profit or loss pledged under repurchase agreements	6	13,016,129	27,777,248
Amounts due from credit institutions	7	10,521,024	18,342,767
Loans to customers	8	17,061,596	23,277,858
Available-for-sale investments	9	422,485	47,709
Property and equipment	10	94,308	107,000
Current income tax assets		21,092	–
Other assets	13	1,331,950	1,320,923
Total assets		**66,902,330**	**101,393,597**
Liabilities			
Amounts due to the CBR	14	–	8,990,258
Amounts due to credit institutions	15	14,473,696	27,619,407
Amounts due to customers	16	18,851,413	23,534,957
Debt securities issued	17	3,267,985	4,020,849
Other provisions	12	1,990,601	1,571,132
Current income tax liabilities	11	–	7,856
Deferred income tax liabilities	11	565,236	1,957,296
Other liabilities	13	189,990	156,421
Total liabilities		**39,338,921**	**67,858,176**
Equity			
Share capital	18	6,946,140	6,946,140
Revaluation reserve for available-for-sale investments		37,758	(4,969)
Retained earnings		20,579,511	26,594,250
Total equity		**27,563,409**	**33,535,421**
Total equity and liabilities		**66,902,330**	**101,393,597**

Signed and authorized for release on behalf of the Management Board of the Bank

L.V. Zimina — Chairman of the Management Board

O.Yu. Pavlova — Chief Accountant – Head of the Accounting and Reporting Department

21 April 2017

The accompanying notes 1-30 are an integral part of these financial statements.

Statement of profit or loss

for the year ended 31 December 2016

(thousands of Russian rubles)

	Notes	*2016*	*2015*
Interest income	20	4,555,125	7,559,315
Interest expense	20	(2,128,369)	(3,516,189)
Net interest income		**2,426,756**	**4,043,126**
(Allowances)/reversal of allowances for impairment of interest-earning assets	8	(356,519)	863,376
Net interest income after allowances for impairment of interest-earning assets		**2,070,237**	**4,906,502**
Fee and commission income	22	393,504	306,442
Fee and commission expense	22	(110,760)	(117,932)
Net (losses) from financial instruments at fair value through profit or loss	21	(4,441,513)	(3,353,952)
Net (losses)/gains from available-for-sale investments		(2,932)	694,739
Net (losses) from precious metals		(270,422)	(534,333)
Net (losses)/gains from foreign currencies:		(2,027,396)	7,512,665
- dealing		(144,312)	121,725
- translation differences		(1,883,084)	7,390,940
Dividends received	23	1,445,946	1,132,239
Other income		177,914	97,621
Non-interest (expense)/income		**(4,835,659)**	**5,737,489**
Personnel expenses	24	(722,246)	(678,798)
Depreciation and amortization		(33,634)	(24,154)
Other operating expenses	24	(598,880)	(382,465)
Other impairment and provisions	12	(439,320)	(767,732)
Non-interest expense		**(1,794,080)**	**(1,853,149)**
(Loss)/profit before income tax expense		**(4,559,502)**	**8,790,842**
Income tax expense	11	(244,486)	(1,743,146)
(Loss)/profit for the year		**(4,803,988)**	**7,047,696**

The accompanying notes 1-30 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2016

(thousands of Russian rubles)

	Notes	*2016*	*2015*
(Loss)/profit for the year		**(4,803,988)**	**7,047,696**
Other comprehensive (loss)/income			
Net change in fair value of available-for-sale investments		52,166	4,519
Reclassification of fair value of available-for-sale investments to profit or loss due to disposal		–	(694,739)
Deferred income tax attributable to components of other comprehensive income for the year	11	(9,439)	137,050
Total comprehensive (loss)/income for the year		**(4,761,261)**	**6,494,526**

The accompanying notes 1-30 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2016

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for available-for-sale investments*	*Retained earnings*	*Total equity*
31 December 2014	**6,946,140**	**548,201**	**20,959,211**	**28,453,552**
Profit for the year	–	–	7,047,696	7,047,696
Other comprehensive (loss) for the year	–	(553,170)	–	(553,170)
Total comprehensive income for the year	**–**	**(553,170)**	**7,047,696**	**6,494,526**
Dividends to shareholders of the Bank (Note 18)	–	–	(1,412,657)	(1,412,657)
31 December 2015	**6,946,140**	**(4,969)**	**26,594,250**	**33,535,421**
(Loss) for the year	–	–	(4,803,988)	(4,803,988)
Other comprehensive income for the year	–	42,727	–	42,727
Total comprehensive (loss) for the year	**–**	**42,727**	**(4,803,988)**	**(4,761,261)**
Dividends to shareholders of the Bank (Note 18)	–	–	(1,210,751)	(1,210,751)
31 December 2016	**6,946,140**	**37,758**	**20,579,511**	**27,563,409**

The accompanying notes 1-30 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2016

(thousands of Russian rubles)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Interest received		5,569,504	7,625,281
Interest paid		(2,179,002)	(3,544,768)
Fees and commissions received		393,504	306,442
Fees and commissions paid		(110,760)	(117,932)
Gains less losses from financial assets at fair value through profit or loss		(3,214,306)	(9,844,793)
Gains less losses from precious metals		(9,073)	(249,738)
Realized (losses)/gains less losses from dealing in foreign currencies		(144,312)	121,731
Dividends received		1,276,876	962,073
Other income received		177,914	97,621
Personnel expenses paid		(712,828)	(661,302)
Other operating expenses paid		(606,188)	(322,231)
Cash flows from operating activities before changes in operating assets and liabilities		**(441,329)**	**(5,627,616)**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(34,784)	168,574
Financial assets at fair value through profit or loss		13,018,643	(3,952,464)
Amounts due from credit institutions		10,587	(61,369)
Loans to customers		5,180,959	2,481,375
Other assets		(829,428)	(809,280)
Net increase/(decrease) in operating liabilities			
Amounts due to the CBR		(8,987,446)	(29,377,232)
Amounts due to credit institutions		(11,798,969)	27,318,589
Financial liabilities at fair value through profit or loss		–	(3,520,173)
Amounts due to customers		(3,086,317)	3,230,731
Debt securities issued		(632,242)	(353,274)
Other liabilities		23,255	22,010
Net cash flows from operating activities before income tax		**(6,694,413)**	**(10,480,129)**
Income tax paid		(1,467,096)	(141,070)
Net cash (used in) operating activities		**(8,161,509)**	**(10,621,199)**
Cash flows from investing activities			
Purchase of securities classified as available for sale		(314,761)	(6,525)
Proceeds from sale and redemption of securities classified as available for sale		7,791	788,209
Purchase of property and equipment		(20,134)	(31,454)
Proceeds from sale of property and equipment		2,832	44,832
Net cash (used in)/from investing activities		**(324,272)**	**795,062**
Cash flows from financing activities			
Dividends paid to shareholders of the Bank		(1,210,597)	(1,412,489)
Net cash (used in) financing activities		**(1,210,597)**	**(1,412,489)**
Effect of exchange rates changes on cash and cash equivalents		(944,148)	1,412,848
Net (decrease) in cash and cash equivalents		**(10,640,526)**	**(9,825,778)**
Cash and cash equivalents, beginning	5	24,394,110	34,219,888
Cash and cash equivalents, ending	5	**13,753,584**	**24,394,110**

The accompanying notes 1-30 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003.
- License of a professional participant of the securities market for securities management activities No. 177-06356-001000 dated 19 September 2003.
- License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003.
- License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 5 additional offices, 14 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, bld. 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 31 December 2016 and 2015, the Bank employed 493 and 490 people, respectively.

As at 31 December 2016 and 2015, the Bank's shareholders were as follows:

Shareholder	*2016, %*	*2015, %*
CENTRORIVER HOLDINGS LTD	67.85	67.85
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	6.34	6.34
Other	0.04	0.04
Total	**100.00**	**100.00**

As at 31 December 2016 and 2015, the composition of the Bank's Board of Directors was as follows:

Name	*Position on the Board of Directors*	*Ownership of the Bank's shares (ultimate) 2016, %*	*Ownership of the Bank's shares (ultimate) 2015, %*
Andrey Igorevich Tarasov	Chairman of the Board of Directors	81.84	81.84
Ilya Yuryevich Korbashov	Member of the Board of Directors	18.12	18.12
Jacques Der Megreditchian	Member of the Board of Directors	–	–
Nikolay Aleksandrovich Anoshko	Member of the Board of Directors	–	–
Artyom Albertovich Dilenyan	Member of the Board of Directors	–	–

(thousands of Russian rubles)

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, securities at fair value through profit or loss, available-for-sale securities and derivative financial instruments and investment property have been measured at fair value. These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual reporting periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

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

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

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as the Bank does not apply the consolidation exception.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The

(thousands of Russian rubles)

amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as available-for-sale investment securities. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with changes in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions on current, clearing and deposit accounts, as well as reverse repurchase agreements with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Precious metals

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded in net gains/(losses) from precious metals.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to the CBR, credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Fair value of standardized exchange-traded contracts providing for a receipt (payment) of variation margin is determined as a variation margin. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in profit or loss.

Promissory notes

Promissory notes purchased are included in trading securities, in available-for-sale investments or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Leases

i. Finance – Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

ii. Finance − Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default, and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped considering credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of losses incurred by the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of profit or loss.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously 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 or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and facilities	20
Furniture and equipment	3
Bank equipment	4
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of profit or loss and presented within other income or other operating expense.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

(thousands of Russian rubles)

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1.1-35 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends

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

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as at fair value through profit or loss or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees (or components of fees) that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2016 and 2015, were RUB 60.6569 and RUB 72.8827 to 1 USD, respectively, and RUB 63.8111 and RUB 79.6972 to 1 EUR, respectively.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required. The effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects no significant impact of IFRS 9 impairment requirements on its equity, because it applies a conservative approach to calculate the present value of future cash flows used in creating allowances.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for all recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

(thousands of Russian rubles)

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. These amendments are not expected to have any impact to the Bank.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments and estimates which have the most significant effect on the amounts recognized in the financial statements:

Valuation of financial instruments

As described in Note 26, the Bank 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 26 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. Management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Valuation of investment property

The Bank records land and buildings within investment property at fair value. For this purpose, the Bank engages an independent qualified appraiser. The most recent revaluation of investment property was carried out as at 1 January 2017 by an independent qualified appraiser (GROS-Consult LLC) applying an appropriate valuation methodology and information on transactions with similar real estate objects in the same location.

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's allowances for loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank 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 Bank's estimated losses and actual losses would require the Bank to record allowances, which could have a material impact on its financial statements in future

(thousands of Russian rubles)

periods.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Impairment of loans and receivables (continued)

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

5. Cash and accounts with the CBR

Cash comprises:

	2016	*2015*
Cash on hand	1,566,887	4,117,113
Accounts with the CBR	1,905,661	2,150,021
Cash and accounts with the CBR	**3,472,548**	**6,267,134**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2016 and 2015, obligatory reserve with the CBR amounted to RUB 189,206 thousand and RUB 154,422 thousand, respectively.

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

	2016	*2015*
Current and clearing accounts with credit institutions (Note 7)	9,196,299	16,145,072
Cash and accounts with the CBR	3,472,548	6,267,134
Time deposits with credit institutions up to 90 days (Note 7)	697,554	1,847,576
Reverse repurchase agreements with credit institutions up to 90 days (Note 7)	627,171	350,119
	13,993,572	**24,609,901**
Less:		
obligatory reserve with the CBR	(189,206)	(154,422)
Encumbered current and clearing accounts with credit institutions	(50,782)	(61,369)
Cash and cash equivalents	**13,753,584**	**24,394,110**

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2016	*2015*
Equity securities	14,347,589	10,495,522
Eurobonds of the Russian Federation	5,687,091	1,045,394
Derivative financial assets	926,518	1,977,204
Russian State bonds	–	5,927,667
Corporate Eurobonds	–	4,807,171
Financial assets at fair value through profit or loss	**20,961,198**	**24,252,958**

(thousands of Russian rubles)

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

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	2016	*2015*
Eurobonds of the Russian Federation	11,078,519	16,158,265
Equity securities	1,937,610	3,668,531
Corporate Eurobonds	–	4,446,616
Russian State bonds	–	1,994,221
Russian sub-federal bonds	–	1,509,615
Financial assets at fair value through profit or loss pledged under repurchase agreements	**13,016,129**	**27,777,248**

Equity securities at fair value through profit or loss comprise:

	2016	*2015*
PJSC Unipro (previously, OJSC E.ON Russia)	3,452,400	2,761,484
PJSC Bashneft	2,089,791	–
PJSC Rostelecom	1,134,935	1,697,726
PJSC Rosseti	1,129,282	135,050
PJSC Megafon	959,922	1,417,888
PJSC Mosenergo	781,673	94,070
PJSC Rosneft	726,153	–
PJSC RusHydro	715,213	–
PJSC MOESK	694,400	1,645
Other	4,601,430	8,056,190
Total equity securities at fair value through profit or loss	**16,285,199**	**14,164,053**

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016			*2015*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Foreign exchange contracts						
Futures – foreign	1,709,898	–	–	1,488,145	–	–
Futures – domestic	4,093,734	–	–	32,287,036	–	–
Equity contracts						
Forwards (equity securities) – domestic	16,927	534	–	120,506	400	255
Share futures – domestic	343,700	–	–	–	–	–
Credit derivative financial instruments						
Credit default swaps – foreign	19,094,868	925,272	–	20,684,275	1,976,804	–
Derivative financial instruments						
Options on futures – domestic	–	–	–	329,577	–	–
RTS Index futures – domestic	5,382,051	–	–	2,703,581	–	–
Contracts for precious metals						
Precious metal forwards – domestic	712,569	712	–	–	–	–
Total derivative assets/liabilities		**926,518**	**–**		**1,977,204**	**255**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

(thousands of Russian rubles)

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

Derivative financial instruments (continued)

Derivative financial assets are included in financial assets at fair value through profit or loss. Derivative financial liabilities are included in other liabilities (Note 13).

As at 31 December 2016 and 2015, the Bank has positions in the following types of derivatives:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of the variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2016	*2015*
Current and clearing accounts with credit institutions	9,196,299	16,145,072
Time deposits with credit institutions up to 90 days	697,554	1,847,576
Reverse repurchase agreements with credit institutions up to 90 days	627,171	350,119
Amounts due from credit institutions	**10,521,024**	**18,342,767**

As at 31 December 2016, the Bank placed RUB 6,991,920 thousand (31 December 2015: RUB 12,685,646 thousand) and RUB 1,417,043 thousand (31 December 2015: RUB 1,607,678 thousand) on current and clearing accounts with a Russian credit institution and internationally recognized OECD banks, respectively.

As at 31 December 2016, time deposits with credit institutions included RUB 697,554 thousand (31 December 2015: RUB 1,847,576 thousand) placed with an internationally recognized OECD bank.

As at 31 December 2016 and 2015, the Bank entered into reverse repurchase agreements with a Russian credit institution.

	2016		*2015*	
	Carrying amount of loans	*Fair value of collateral*	*Carrying amount of loans*	*Fair value of collateral*
Russian State bonds	442,602	486,082	–	–
Corporate bonds	142,560	152,669	–	–
Corporate equity securities	42,009	52,735	350,119	445,220
Total	**627,171**	**691,486**	**350,119**	**445,220**

(thousands of Russian rubles)

8. Loans to customers

Loans to customers comprise:

	2016	*2015*
Loans to legal entities	19,016,005	18,190,622
Loans to individuals	6,659,471	1,145,564
Reverse repurchase agreements	4,689,962	18,111,823
Net investment in finance leases	1,350,875	594,262
Total loans to customers	**31,716,313**	**38,042,271**
Less: allowance for impairment	(14,654,717)	(14,764,413)
Loans to customers	**17,061,596**	**23,277,858**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans is as follows:

	Loans to legal entities	*Loans to individuals*	*Reverse repurchase agreement*	*Net investment in finance leases*	*Total*
1 January 2016	**11,271,747**	**423,474**	**2,486,281**	**582,911**	**14,764,413**
Allowance/(reversal of allowance)	169,883	1,212,764	(1,905,383)	879,255	356,519
Loans written off against allowance	(354,324)	–	–	(111,891)	(466,215)
31 December 2016	**11,087,306**	**1,636,238**	**580,898**	**1,350,275**	**14,654,717**
Individual impairment	10,894,079	1,636,238	580,898	1,350,275	14,461,490
Collective impairment	193,227	–	–	–	193,227
	11,087,306	**1,636,238**	**580,898**	**1,350,275**	**14,654,717**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**18,329,275**	**6,659,471**	**4,689,962**	**1,350,875**	**31,029,583**

	Loans to legal entities	*Loans to individuals*	*Reverse repurchase agreement*	*Net investment in finance leases*	*Total*
1 January 2015	**12,436,828**	**533,322**	**3,596,304**	**375,936**	**16,942,390**
Allowance/(reversal of allowance)	146,174	(106,502)	(1,110,023)	206,975	(863,376)
Loans written off against allowance	(793,621)	(3,346)	–	–	(796,968)
Write-off on sale of assets	(517,633)	–	–	–	(517,633)
31 December 2015	**11,271,747**	**423,474**	**2,486,281**	**582,911**	**14,764,413**
Individual impairment	11,100,606	423,474	2,486,281	582,911	14,593,272
Collective impairment	171,141	–	–	–	171,141
	11,271,747	**423,474**	**2,486,281**	**582,911**	**14,764,413**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**17,374,101**	**1,130,402**	**18,111,823**	**594,262**	**37,210,588**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities.
- For commercial lending, charges over real estate properties, securities issued by the Bank and vehicles.
- For retail lending, mortgages over residential properties and charges over vehicles.

(thousands of Russian rubles)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In 2016, the Bank obtained no assets through pledge and accord and satisfaction agreements relating to loans to customers (in 2015, the Bank obtained such assets in the amount of RUB 411,475 thousand that were recognized as investment property within other assets (Note 13)).

As at 31 December 2016 and 2015, loans to customers included reverse repurchase agreements maturing on 20 January 2017 and 19 January 2016, respectively. Fair value of assets pledged as collateral and carrying amount of reverse repurchase agreements comprised:

	2016		***2015***	
	Carrying amount of loans	***Fair value of collateral***	***Carrying amount of loans***	***Fair value of collateral***
Debt securities of the Russian Federation	2,890,142	2,966,744	11,093,453	11,487,799
Corporate equity securities	1,799,820	2,386,608	4,693,097	6,507,668
Russian sub-federal debt securities	–	–	1,593,861	2,022,100
Corporate debt securities	–	–	731,412	840,568
Total	**4,689,962**	**5,353,352**	**18,111,823**	**20,858,135**

Concentration of loans to customers

As at 31 December 2016, the total outstanding amount of loans to four major borrowers was RUB 17,053,044 thousand, equivalent to 53.8% of the Bank's gross loan portfolio (31 December 2015: RUB 22,304,017 thousand, or 58.6%). As at 31 December 2016, an allowance for impairment of RUB 5,763,931 thousand (31 December 2015: RUB 5,586,289 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2016	***2015***
Private companies	25,056,842	36,896,707
Individuals	6,659,471	1,145,564
	31,716,313	**38,042,271**
Less: allowance for impairment	(14,654,717)	(14,764,413)
Loans to customers	**17,061,596**	**23,277,858**

Loans are made principally within Russia in the following industry sectors:

	2016	***2015***
Individuals	6,659,471	1,145,564
Construction	6,218,446	4,907,324
Finance	5,939,962	18,539,792
Real estate	4,286,297	4,074,877
Trade	2,164,809	2,043,754
Agribusiness	1,547,950	1,279,003
Extractive industry	1,489,603	2,392,493
Automotive industry	1,130,000	1,050,000
Transport	881,779	602,128
Timber, furniture and woodworking industry	347,582	907,819
Metallurgy	214,431	247,167
Chemical industry	168,933	–
Other	667,050	852,350
	31,716,313	**38,042,271**
Less: allowance for impairment	(14,654,717)	(14,764,413)
Loans to customers	**17,061,596**	**23,277,858**

(thousands of Russian rubles)

8. Loans to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2016 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Finance lease receivables	93,529	690,438	1,164,482	1,948,449
Unearned future finance income on finance leases	(7,780)	(202,211)	(387,583)	(597,574)
Net investment in finance leases	**85,749**	**488,227**	**776,899**	**1,350,875**

The analysis of finance lease receivables at 31 December 2015 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Finance lease receivables	86,755	281,706	400,365	768,826
Unearned future finance income on finance leases	(35,685)	(99,646)	(39,233)	(174,564)
Net investment in finance leases	**51,070**	**182,060**	**361,132**	**594,262**

As at 31 December 2016 and 2015, the amount of allowance for loan impairment was RUB 1,350,275 thousand and RUB 582,911 thousand, respectively.

9. Available-for-sale investments

As at 31 December 2016, available-for-sale investments in the amount of RUB 422,485 thousand (31 December 2015: RUB 47,709 thousand) included equity securities of Russian companies.

10. Property and equipment

The movements in property and equipment were as follows:

	Buildings and facilities	*Furniture and equipment*	*Bank equipment*	*Motor vehicles*	*Total*
Cost					
31 December 2015	**156,320**	**128,384**	**38,727**	**14,961**	**338,392**
Additions	–	15,870	3,159	1,105	20,134
Disposals and write-offs	–	(12,237)	(5,753)	(661)	(18,651)
Transfers	–	419	(419)	–	–
31 December 2016	**156,320**	**132,436**	**35,714**	**15,405**	**339,875**
Accumulated depreciation					
31 December 2015	**91,838**	**104,080**	**26,387**	**9,087**	**231,392**
Depreciation charge	7,816	15,470	4,483	2,431	30,200
Disposals and write-offs	–	(9,641)	(5,753)	(631)	(16,025)
31 December 2016	**99,654**	**109,909**	**25,117**	**10,887**	**245,567**
Net book value					
31 December 2015	**64,482**	**24,304**	**12,340**	**5,874**	**107,000**
31 December 2016	**56,666**	**22,527**	**10,597**	**4,518**	**94,308**

(thousands of Russian rubles)

10. Property and equipment (continued)

	Buildings and facilities	*Furniture and equipment*	*Bank equipment*	*Motor vehicles*	*Total*
Cost					
31 December 2014	**246,320**	**173,058**	**46,295**	**14,538**	**480,211**
Additions	–	19,121	10,211	2,122	31,454
Transfers to investment property	(90,000)	–	–	–	(90,000)
Disposals and write-offs	–	(63,795)	(17,779)	(1,699)	(83,273)
31 December 2015	**156,320**	**128,384**	**38,727**	**14,961**	**338,392**
Accumulated depreciation					
31 December 2014	**91,838**	**95,052**	**27,521**	**7,810**	**222,221**
Depreciation charge	–	17,070	3,759	2,884	23,713
Disposals and write-offs	–	(8,042)	(4,893)	(1,607)	(14,542)
31 December 2015	**91,838**	**104,080**	**26,387**	**9,087**	**231,392**
Net book value					
31 December 2014	**154,482**	**78,006**	**18,774**	**6,728**	**257,990**
31 December 2015	**64,482**	**24,304**	**12,340**	**5,874**	**107,000**

11. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current tax charge	1,645,985	273,124
Deferred tax (credit)/charge – origination and reversal of temporary differences	(1,401,499)	1,470,022
Income tax expense	**244,486**	**1,743,146**

Russian legal entities have to file individual corporate income tax declarations. Standard income tax rate for companies (including banks) comprised 20% in 2016 and 2015. Corporate income tax rate applicable to interest (coupon) income on state and municipal bonds was 15% in 2016 and 2015. Dividends are subject to Russian income tax at a standard rate of 13%, which can be reduced to 0% subject to certain criteria.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2016	*2015*
(Loss)/profit before tax	**(4,559,502)**	**8,790,842**
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/expense at the statutory rate	**(911,900)**	**1,758,168**
Effect of different tax rates	(110,806)	(120,169)
Non-deductible expenditures	137,250	105,147
Adjustment to current income tax of prior years	1,129,942	–
Income tax expense	**244,486**	**1,743,146**

(thousands of Russian rubles)

11. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2014	***In the statement of profit or loss***	***In other comprehensive income***	***2015***	***In the statement of profit or loss***	***In other comprehensive income***	***2016***
Tax effect of deductible temporary differences							
Change in fair value of financial assets at fair value through profit or loss	–	–	–	–	166,760	–	166,760
Change in fair value of available-for-sale investments	754,438	(754,438)	994	994	–	(994)	–
Other provisions	–	322,215	–	322,215	82,262	–	404,477
Tax losses carried forward	–	728,668	–	728,668	(728,668)	–	–
Debt securities issued	21,588	15,033	–	36,621	(36,326)	–	295
Investment property	–	30,424	–	30,424	40,160	–	70,584
Property and equipment	10,306	1,296	–	11,602	(1,558)	–	10,044
Other	5,926	195,768	–	201,694	130,268	–	331,962
Gross deferred tax asset	**792,258**	**538,966**	**994**	**1,332,218**	**(347,102)**	**(994)**	**984,122**
Unrecognized deferred tax asset	–	–	(994)	(994)	–	994	–
Deferred tax asset	**792,258**	**538,966**	**–**	**1,331,224**	**(347,102)**	**–**	**984,122**
Tax effect of taxable temporary differences							
Change in fair value of financial assets at fair value through profit or loss	–	1,243,082	–	1,243,082	(1,243,082)	–	–
Change in fair value of available-for-sale investments	137,050	–	(137,050)	–	(170)	9,439	9,269
Derivative financial instruments	–	395,441	–	395,441	(210,137)	–	185,304
Allowance for impairment	1,079,808	371,731	–	1,451,539	(651,410)	–	800,129
Property and equipment	–	100	–	100	15	–	115
Debt securities issued	–	3,556	–	3,556	1,890	–	5,446
Other	28	38,217	–	38,245	112,259	–	150,504
Allowance for impairment of securities	199,696	(43,139)	–	156,557	242,034	–	398,591
Deferred tax liability	**1,416,582**	**2,008,988**	**(137,050)**	**3,288,520**	**(1,748,601)**	**9,439**	**1,549,358**
Deferred tax liability	**624,324**	**1,470,022**	**(137,050)**	**1,957,296**	**(1,401,499)**	**9,439**	**565,236**

12. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	***Guarantees, credit facilities and overdrafts issued***	***Total***
31 December 2014	**–**	**812,143**	**812,143**
Charge	8,743	758,989	767,732
31 December 2015	**8,743**	**1,571,132**	**1,579,875**
Charge	19,851	419,469	439,320
31 December 2016	**28,594**	**1,990,601**	**2,019,195**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for guarantees, credit facilities and overdrafts issued are recorded in other provisions in the statement of financial position.

(thousands of Russian rubles)

13. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Financial assets		
Settlements on broker operations	506,334	468,860
Commemorative coins	96,890	128,387
Dividends receivable	63,118	80,793
Settlements with suppliers and other debtors	38,801	24,382
Other financial assets	104,147	48,585
	809,290	**751,007**
Less: allowance for impairment (Note 12)	(28,594)	(8,743)
Total financial assets less allowance	**780,696**	**742,264**
Non-financial assets		
Investment property	503,319	501,475
Intangible assets	36,736	34,975
Precious metals	10,872	10,129
Prepaid taxes other than income tax	327	32,080
Total non-financial assets	**551,254**	**578,659**
Total other assets	**1,331,950**	**1,320,923**

Investment property

Movements in investment property were as follows:

	2016	*2015*
Opening balance at 1 January	**501,475**	**–**
Additions (Note 8)	–	411,475
Transfer from property and equipment	–	90,000
Transfer to finance lease	(90,000)	–
Revaluation recognized in profit or loss	91,844	–
Closing balance at 31 December	**503,319**	**501,475**

As at 31 December 2016, the amount of fair value of investment property is based on results of a valuation performed by an independent certified appraiser. The Bank has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance them.

Amounts recorded in profit or loss:

	2016	*2015*
Rental income derived from investment property	26,879	9,365
Direct operating expenses (including repairs and maintenance) arising from investment property	(8,310)	(42)
	18,569	**9,323**

Intangible assets

Other assets include intangible assets in the amount of RUB 40,955 thousand (31 December 2015: RUB 35,760 thousand), less accumulated amortization of RUB 4,219 thousand (31 December 2015: RUB 785 thousand). For the year ended 31 December 2016, additions to intangible assets amounted to RUB 5,195 thousand (year ended 31 December 2015: RUB 26,544 thousand). The respective amortization charges for the year ended 31 December 2016 were RUB 3,434 thousand (year ended 31 December 2015: RUB 441 thousand), which were included in non-interest expenses within amortization.

Other liabilities comprise:

	2016	*2015*
Settlements with customers	83,010	64,526
Settlements with employees	76,353	66,935
Current tax liabilities other than income tax	10,474	7,711
Derivative financial liabilities	–	255
Other	20,153	16,994

(thousands of Russian rubles)

Other liabilities	**189,990**	**156,421**

(thousands of Russian rubles)

14. Amounts due to the CBR

As at 31 December 2016, the Bank had no amounts due to the CBR. As at 31 December 2015, amounts due to the CBR of RUB 8,990,258 thousand included repurchase agreements maturing on 11-13 January 2016.

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2016	*2015*
Repurchase agreements (Note 27)	14,415,191	27,473,277
Time deposits and loans	58,505	146,130
Amounts due to credit institutions	**14,473,696**	**27,619,407**

As at 31 December 2016 and 2015, amounts due to credit institutions included repurchase agreements with Russian credit institutions maturing on 11 January 2017 and 13 January 2016, respectively.

16. Amounts due to customers

Amounts due to customers comprise:

	2016	*2015*
Current accounts	7,951,815	12,482,574
Brokerage accounts	6,562,808	7,326,744
Time deposits	4,336,790	3,725,639
Amounts due to customers	**18,851,413**	**23,534,957**

As at 31 December 2016, amounts due to customers of RUB 12,395,180 thousand (65.8%) were due to the ten largest customers (2015: RUB 15,493,921 thousand (65.8%)).

Included in time deposits are deposits of individuals in the amount of RUB 3,213,835 thousand (2015: RUB 3,684,764 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2016	*2015*
Private companies	14,477,605	18,288,571
Individuals	3,669,007	4,010,547
Employees	704,801	1,235,662
State and budgetary organizations	–	177
Amounts due to customers	**18,851,413**	**23,534,957**

An analysis of customer accounts by economic sector is as follows:

	2016	*2015*
Finance	11,084,984	14,413,971
Individuals	4,373,808	5,246,209
Trade	1,512,591	1,107,597
Radioelectronics and precision instruments industry	821,344	671,312
Construction	245,339	312,088
Transport	236,569	63,725
Real estate	155,155	321,161
Electric energy	42,569	62,341
Chemical industry	17,759	1,313
Metallurgy	17,056	7,828
Extractive industry	13,632	681,236
Agribusiness	11,497	30,047
Timber, furniture and woodworking industry	4,015	217,015
Other	315,095	399,114
Amounts due to customers	**18,851,413**	**23,534,957**

(thousands of Russian rubles)

17. Debt securities issued

Debt securities issued comprise:

	2016	*2015*
Savings certificates	2,544,176	1,378,165
Promissory notes	723,809	2,642,684
Debt securities issued	**3,267,985**	**4,020,849**

As at 31 December 2016, the Bank had issued discount-bearing promissory notes with an aggregate nominal value of RUB 218,113 thousand (31 December 2015: RUB 630,493 thousand, including non-interest-bearing promissory notes) maturing in 2018. Interest-bearing promissory notes and savings certificates issued by the Bank as at 31 December 2016 bear annual interest rates ranging from 0.01% to 13.2% (31 December 2015: from 0.01% to 16.5%).

18. Equity

As at 31 December 2016 and 2015, the authorized, issued and fully paid share capital comprised:

	Number of shares		*Nominal amount*		*Inflation adjustment*	*Total*
	Preferred	*Ordinary*	*Preferred*	*Ordinary*		
31 December 2015	48	17,168,974	5	6,695,900	250,235	**6,946,140**
31 December 2016	48	17,168,974	5	6,695,900	250,235	**6,946,140**

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

At the shareholders' meeting in October 2016, the Bank declared and paid dividends in respect of the 9 months of 2016 using retained earnings for prior years, totaling RUB 1,000,608 thousand on ordinary shares (RUB 58.28 per share) and RUB 1 thousand on preferred shares (RUB 14.57 per share). At the shareholders' meeting in June 2016, the Bank declared and paid dividends in respect of the year ended 31 December 2015, totaling RUB 210,149 thousand on ordinary shares (RUB 12.24 per share) and RUB 146.88 on preferred shares (RUB 3.06 per share).

At the shareholders' meeting in November 2015, the Bank declared and paid dividends in respect of the 9 months of 2015, totaling RUB 559,709 thousand on ordinary shares (RUB 32.60 per share) and RUB 391.20 on preferred shares (RUB 8.15 per share).

At the shareholders' meeting in June 2015, the Bank declared and paid dividends in respect of the year ended 31 December 2014, totaling RUB 852,955 thousand on ordinary shares (RUB 49.68 per share) and RUB 596.16 on preferred shares (RUB 12.42 per share).

Dividends which have not been demanded by shareholders within the timeframe established by Russian law amounted to RUB 6 thousand (2015: RUB 7 thousand).

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated retained earnings as shown in the Bank's financial statements prepared in accordance with RAL.

19. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

(thousands of Russian rubles)

19. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

As at 31 December, the Bank's commitments and contingencies comprised the following:

	2016	*2015*
Credit-related commitments		
Undrawn loan commitments	992,934	1,818,000
Guarantees	6,208,784	4,134,231
	7,201,718	**5,952,231**
Operating lease commitments		
Less than 1 year	6,590	4,248
1 to 5 years	–	–
Over 5 years	–	–
	6,590	**4,248**
Less: provisions (Note 12)	(1,990,601)	(1,571,132)
Commitments and contingencies	**5,217,707**	**4,385,347**

The Bank entered into agreements on the provision of guarantees within established limits. As at 31 December 2016, the unused limits on guarantee issuance amounted to RUB 5,891,127 thousand (31 December 2015: RUB 4,130,677 thousand).

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

(thousands of Russian rubles)

20. Interest income and expense

	2016	*2015*
Loans to customers	3,372,472	4,930,839
Amounts due from banks (including under reverse repurchase agreements)	210,680	322,402
	3,583,152	**5,253,241**
Financial assets at fair value through profit or loss	971,973	2,306,074
Interest income	**4,555,125**	**7,559,315**
Amounts due to credit institutions	1,574,597	1,166,028
Debt securities issued	283,575	284,604
Amounts due to customers	220,922	216,977
Amounts due to the CBR	49,275	1,848,580
Interest expense	**2,128,369**	**3,516,189**

Interest income on loans relates to interest accrued on loans individually determined to be impaired.

21. Net (losses) from financial instruments at fair value through profit or loss

Net (losses) from assets and liabilities at fair value through profit or loss comprise:

	2016	*2015*
Net gains/(losses) on sale of securities	835,362	(1,536,397)
Adjustment of the fair value of securities	386,169	6,366,550
Net (losses) on sale of derivative financial instruments	(4,006,988)	(8,343,161)
Net (losses)/gains on revaluation of derivative financial instruments	(1,656,056)	159,056
Net (losses) from financial assets and liabilities at fair value through profit or loss	**(4,441,513)**	**(3,353,952)**

22. Net fee and commission income

Net fee and commission income comprises:

	2016	*2015*
Issuance of bank guarantees	143,516	95,494
Settlement and cash operations	77,987	77,870
Cash transfers	65,057	86,938
Foreign currency operations	44,578	–
Brokerage services	41,367	42,631
Other	20,999	3,509
Fee and commission income	**393,504**	**306,442**
Foreign currency operations	55,718	68,826
Cash transfers	27,328	25,293
Settlements	15,293	15,139
Cash operations	3,936	6,093
Other	8,485	2,581
Fee and commission expense	**110,760**	**117,932**
Net fee and commission income	**282,744**	**188,510**

(thousands of Russian rubles)

23. Dividends received

In 2016, the Bank received dividends from third-party organizations totaling RUB 1,445,946 thousand: RUB 381,296 thousand from PJSC Unipro (previously, OJSC E.ON Russia), RUB 272,732 thousand from PJSC Bashneft and RUB 240,882 thousand from OJSC Surgutneftegas.

In 2015, the Bank received dividends from third-party organizations totaling RUB 1,132,239 thousand: RUB 404,154 thousand from OJSC Surgutneftegas, RUB 232,944 thousand from PJSC GMK Norilskiy Nikel and RUB 105,493 thousand from PJSC MegaFon.

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	***2015***
Employee compensation	593,602	540,865
Social security costs	128,644	137,933
Personnel expenses	**722,246**	**678,798**
Fines and penalties (including income tax penalties)	218,153	209
Occupancy and rent	94,460	59,721
Operating taxes	56,748	43,946
Legal, consulting and professional services	47,793	75,304
Communications	42,636	39,904
Deposit insurance	22,932	11,735
Entertainment	19,589	12,925
Marketing and advertising	17,525	10,832
Office supplies	15,062	13,339
Business travel and related expenses	13,583	11,809
Repair and maintenance	13,548	12,424
Investment property maintenance	8,310	42
Charity	6,406	3,795
Security	4,267	3,905
Insurance	2,666	20,563
Data processing	1,087	859
Personnel training	481	4,699
Loss on disposal of property and equipment	206	23,899
Other	13,428	32,555
Other operating expenses	**598,880**	**382,465**

25. Risk management

Introduction

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk (comprising price risk, interest rate risk and currency risk), and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

(thousands of Russian rubles)

25. Risk management (continued)

Introduction (continued)

Risk management structure

The functional duties related to risk management are allocated among the Bank's management bodies and departments. This allocation is aimed at implementing the principle of segregating powers and responsibilities in the following manner:

- *The Board of Directors of the Bank* determines the direction of development and the scope of the current activities of the Bank through approval of the Bank's Strategy and Budget, and controls the Bank's Management Board in order to avoid actions reducing the quality of the risk management system.
- *The Management Board of the Bank* determines the methods for achieving the performance targets (planned results specified in the Bank's Strategy) through approval of internal regulatory documents and limits and through assignment of powers and responsibilities to the departments and individual employees of the Bank and to the committees of the Management Board. The Management Board has overall responsibility for the development of a management strategy. It is also responsible for material aspects of risk management and monitors relevant risk decisions.
- *The Credit Committee* makes decisions on credit transactions and sets limits for borrowers (group of related borrowers) and the terms of each particular credit-related transaction (except for reverse repurchase transactions).
- *The Client Committee* considers and makes decisions on the introduction of new banking products/services, including based on the systematization of the results of expert reviews performed by the Legal Department and other departments of the Bank to verify compliance with applicable legislation and internal regulatory documents (other committees of the Management Board function in a similar manner within their competence).
- *The Risk Assessment Department* develops banking risk management methodologies, assesses expected losses and monitors the availability and condition of property pledged as collateral for the commercial loan portfolio, and participates in the identification, assessment and monitoring of all types of banking risks.
- *The Main Financial Department* calculates and interprets the Bank's key performance indicators, prepares analytical materials for the purposes of decision making by the Bank's management and exercises comprehensive control over compliance with the level of risks assumed by the Bank.
- *The Main Treasury Transactions Department (the Treasury)* builds the asset structure in line with the Bank's Strategy through operational management of the portfolios of funds raised and placed, and manages liquidity.
- *The Investment and Analytical Department* prepares information on the volatility of securities for the calculation of expected losses on investments in securities and assesses the financial condition of credit institutions that are residents of the Russian Federation for determining limits for counterparties.
- *The Consolidated Financial Statements Unit of the Accounting and Reporting Department* calculates prudential ratios in accordance with the instructions of the Bank of Russia.
- *The Internal Audit Function* exercises, on an ongoing basis, preliminary, current and subsequent control over the compliance of the risk management process with the approved internal documents and the requirements established by the Bank of Russia.
- *The Internal Control Function* performs regulatory risk management functions.

The head of a department/management body is responsible for all risk management issues that are within the responsibility of the department/management body.

Risk measurement and reporting system

Risks are managed at all stages of the Bank's normal operating activities from the initiation, monitoring and analysis of operations/transactions to the actual closing of operations/transactions. The Bank prioritizes preventive risk assessment, i.e. risk assessment taking into account a number of factors before the performance of any transaction and/or actions that affect the financial position of the Bank. Preventive risk assessment for a particular transaction and/or actions is performed by all departments of the Bank involved in the consummation, documentation, recording and analysis of a transaction/actions (as part of their functional duties).

(thousands of Russian rubles)

25. Risk management (continued)

Introduction (continued)

In practice, risks are managed through:

- Setting of limits (based on a number of macro- and microeconomic factors known for a particular issuer, counterparty, borrower, etc.).
- Comprehensive examination of transactions from the perspective of legislative regulation, established practices, published court rulings, etc. (during discussions at the meetings of the Management Board, the respective committees and working groups).
- Stress testing in line with approved scenarios (i.e. assessment of a potential impact of a number of anticipated negative changes (“shocks”) in risk factors on the financial condition of the Bank).
- Assessment of expected losses on the Bank's assets sensitive to risks (loan portfolio, receivables from reverse repurchase transactions, portfolio of shares and bonds, including those transferred in repurchase transactions). For the loan portfolio, this assessment is performed by combining the expert reviews of a borrower's business and the quality of collateral, and for exchange-traded assets and their derivatives, it is based on the probabilistic approach and statistical data for these instruments.
- Assessment of interest risk by means of determining the gap between assets and liabilities by maturities (GAP analysis).
- Diversification of investments in financial instruments that are sensitive to changes in market value by means of investment allocation by type of instrument and industry where securities issuers operate.
- Systematization of data on actual occurrences of operating and other risks.
- Other internal control procedures, including those required to optimize the allocation of functional duties in order to avoid conflicts of interest and make the best use of employees’ professional skills.

When making decisions related to risk acceptance and management, the management bodies of the Bank and/or its departments apply the principles specified in the Strategy, the Credit Policy and other fundamental documents of the Bank. When faced with controversial issues and having no clear guidance for their resolution in the above documents, the Bank gives priority to the protection of the interests of its lenders and depositors and applies the principle of prudence in building the asset portfolio.

The approach to managing a particular type of risk depends on the nature of this type of risk and is based on the principle of the effectiveness of control procedures and the principle of the materiality of losses that may be potentially assessed if the risk materializes. Significant risks are managed using the respective internal regulations approved by the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

(thousands of Russian rubles)

25. Risk management (continued)

Credit risk (continued)

Credit risk management involves a deep understanding of a customer's business, assessment of the personality and experience of its managers/beneficiaries and their reputation in the market, assessment of the current cash flows and projection of expected cash flows as a source of funds for the repayment of credit obligations, control over the condition of collateral and assessment of its liquidity, and analysis and monitoring of other micro- and macroeconomic factors contributing to the timely identification of risks for a credit transaction. All of the above parameters must be taken into account when making a decision on providing loans and/or changing the original terms of a credit transaction.

When preparing a credit application to be submitted to the Credit Committee of the Bank, the departments involved (the Risk Assessment Department, the Security Department, the Legal Department, the Department for Credit Transaction Analysis and Execution) prepare a conclusion with respect to the borrower and provide recommendations with respect to credit conditions (maximum credit exposure, maturities, interest rates, conditions of finance leases or factoring transactions, guarantees, addenda to the contacts in force, etc.). Current credit risk exposure is monitored by the employees of the Department for Credit Transaction Analysis and Execution under direct control of the Credit Committee.

Information on credit risk assessment to be considered by the Credit Committee for a particular credit asset (both during initial review and during subsequent restructuring of a credit transaction) is prepared by the Risk Assessment Department in accordance with the methodology approved by the Bank's authorized bodies. This methodology represents a combination of two methods: expert review of the level of expected losses and classification of each particular transaction based on the average annual probability of a borrower's default and the quality and adequacy of collateral. The average annual probability of default for each customer, in turn, is determined by the Risk Assessment Department on the basis of the estimates made as a result of the analysis of the qualitative and quantitative characteristics of a customer's business and the analysis of accumulated credit history statistics.

The condition of collateral for the commercial loan portfolio is monitored by the Risk Assessment Department. The essence of control over collateral is to ensure its physical availability, monitor its market value, and assess a potential demand from willing buyers and other determinants of collateral liquidity.

The main credit risk management tool for transactions in financial markets is limit setting, as these are homogeneous and, as a rule, short-term transactions conducted on a regular basis and involving a significant number of absolutely identical deals (in terms of their type and degree of risk). The Bank sets the following types of limits: counterparty risk limit for repurchase transactions, uncovered counterparty risk limit and limit for transactions with counterparties in the precious metal market.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. They expose the Bank to similar risks to loans and these are mitigated by the same control procedures and policies.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

(thousands of Russian rubles)

25. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the analysis of the following items based on the ratings of international rating agencies: cash and cash equivalents, amounts due from credit institutions, financial assets at fair value through profit or loss, and available-for-sale investments. For these items, high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3. As for loans to customers, the majority of the Bank's borrowers are not rated by international rating agencies. Individually impaired loans include all overdue loans. The information is based on carrying amounts before allowance for impairment. More details on allowance for impairment of loans to customers are provided in Note 8.

		Neither past due nor impaired				
2016	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Individually impaired***	***Total***
Accounts with the CBR	5	1,905,661	–	–	–	1,905,661
Financial assets at fair value through profit or loss (debt securities)	6	16,765,610	–	–	–	16,765,610
Amounts due from credit institutions	7	10,050,902	347,802	122,320	–	10,521,024
Loans to customers	8	–	–	686,730	31,029,583	31,716,313
Other financial assets	13	–	–	780,696	–	780,696
Total		**28,722,173**	**347,802**	**1,589,746**	**31,029,583**	**61,689,304**

		Neither past due nor impaired				
2015	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Individually impaired***	***Total***
Accounts with the CBR	5	2,150,021	–	–	–	2,150,021
Financial assets at fair value through profit or loss (debt securities)	6	30,977,765	4,911,184	–	–	35,888,949
Amounts due from credit institutions	7	18,026,820	40,160	275,787	–	18,342,767
Loans to customers	8	–	–	831,683	37,210,588	38,042,271
Other financial assets	13	–	–	742,264	–	742,264
Total		**51,154,606**	**4,951,344**	**1,849,734**	**37,210,588**	**95,166,272**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, loan restructuring, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Due to a limited number of borrowers, the Bank considers the majority of loans as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Financial guarantees and letters of credit are also assessed for impairment, and allowance is created in a similar manner as for loans.

(thousands of Russian rubles)

25. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Bank's assets and liabilities is set out below:

	2016				*2015*			
	Russia	*OECD*	*Non-OECD countries*	*Total*	*Russia*	*OECD*	*Non-OECD countries*	*Total*
Assets								
Cash and accounts with the CBR	3,472,548	–	–	3,472,548	6,267,134	–	–	6,267,134
Financial assets at fair value through profit or loss	33,052,055	925,272	–	33,977,327	50,053,402	1,976,804	–	52,030,206
Amounts due from credit institutions	8,405,677	2,114,597	750	10,521,024	13,970,864	4,371,044	859	18,342,767
Loans to customers	12,952,330	–	4,109,266	17,061,596	9,803,356	–	13,474,502	23,277,858
Available-for-sale investments	422,436	49	–	422,485	47,660	49	–	47,709
Other financial assets	269,056	511,640	–	780,696	270,222	472,026	16	742,264
Total financial assets	**58,574,102**	**3,551,558**	**4,110,016**	**66,235,676**	**80,412,638**	**6,819,923**	**13,475,377**	**100,707,938**
Property and equipment	94,308	–	–	94,308	107,000	–	–	107,000
Current income tax assets	21,092	–	–	21,092	–	–	–	–
Other non-financial assets	551,254	–	–	551,254	578,659	–	–	578,659
Total non-financial assets	**666,654**	**–**	**–**	**666,654**	**685,659**	**–**	**–**	**685,659**
Total assets	**59,240,756**	**3,551,558**	**4,110,016**	**66,902,330**	**81,098,297**	**6,819,923**	**13,475,377**	**101,393,597**
Liabilities								
Amounts due to the CBR	–	–	–	–	8,990,258	–	–	8,990,258
Amounts due to credit institutions	14,415,192	58,504	–	14,473,696	27,473,277	146,130	–	27,619,407
Amounts due to customers	9,729,500	6,086	9,115,827	18,851,413	10,146,500	11,973	13,376,484	23,534,957
Debt securities issued	3,267,985	–	–	3,267,985	4,020,849	–	–	4,020,849
Other financial liabilities	137,303	495	41,718	179,516	131,008	648	14,892	146,548
Total financial liabilities	**27,549,980**	**65,085**	**9,157,545**	**36,772,610**	**50,761,892**	**158,751**	**13,391,376**	**64,312,019**
Other provisions	1,990,601	–	–	1,990,601	1,571,132	–	–	1,571,132
Current income tax liabilities	–	–	–	–	7,856	–	–	7,856
Deferred income tax liabilities	565,236	–	–	565,236	1,957,296	–	–	1,957,296
Other non-financial liabilities	10,474	–	–	10,474	9,845	21	7	9,873
Total non-financial liabilities	**2,566,311**	**–**	**–**	**2,566,311**	**3,546,129**	**21**	**7**	**3,546,157**
Total liabilities	**30,116,291**	**65,085**	**9,157,545**	**39,338,921**	**54,308,021**	**158,772**	**13,391,383**	**67,858,176**
Net assets and liabilities	**29,124,465**	**3,486,473**	**(5,047,529)**	**27,563,409**	**26,790,276**	**6,661,151**	**83,994**	**33,535,421**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

(thousands of Russian rubles)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Strategic asset and liability management is the responsibility of the Bank's Management Board which determines funding sources and investment areas. Operational liquidity management is the responsibility of the Bank's Treasury and involves maintaining such a structure and quality of assets and liabilities that allow the Bank to ensure an adequate level of liquidity in a prompt manner without a marked decline in the profitability of banking transactions and a deterioration of the Bank's other performance indicators. The Main Financial Department prepares a set of analytical materials for management decision making purposes and performs the stress testing of the Bank's liquidity in line with approved scenarios and stress test parameters. When planned transactions have certain parameters, the Bank's departments that place and raise funds must obtain approval for their actions from a supervising body (in most cases, the Treasury) which may suspend a planned transaction in the event of its negative impact on liquidity.

The level of the Bank's liquidity required for the proper performance of obligations as they fall due is assessed by type of liquidity: instant, current, medium-term and long-term liquidity. Depending on the Bank's needs and taking into account the applicable requirements of the Bank of Russia, the Bank uses three methods for the assessment of the liquidity level:

- Calculation of financial ratios.
- Stress testing.
- Comparison of assets and liabilities by maturities.

To assess instant, current and long-term liquidity, the Bank uses ratios N2, N3 and N4 calculated on a daily basis in accordance with the methodology established by the Bank of Russia.

The stress testing method is used to assess the level of current liquidity and involves the comparison of the consequences of a simultaneous occurrence of several possible unfavorable events posing the current liquidity risk for the Bank with the effect of a number of measures taken by the Bank to improve liquidity. The parameters of scenarios are revised as planned, and the scenario of a stress test developed by the working group and its parameters are approved by the Bank's Management Board. The Main Financial Department makes calculations for stress tests in line with the approved scenario at least once a month.

To assess medium-term and long-term liquidity, the Bank compares the remaining maturities of assets and liabilities.

In the reporting period, the estimated instant and current liquidity ratios exceeded the minimum acceptable values, and the long-term liquidity ratio did not exceed the limits established by the Bank of Russia.

The N2 ratio (instant liquidity, acceptable minimum value of 15.0%) as at 31 December 2016 was 102.5% (31 December 2015: 104.1%).

The N3 ratio (current liquidity, acceptable minimum value of 50.0%) as at 31 December 2016 was 102.3% (31 December 2015: 124.3%).

The N4 ratio (long-term liquidity, acceptable maximum value of 120.0%) as at 31 December 2016 was 22.5% (31 December 2015: 10.1%).

Reports on liquidity risk prepared in the reporting period in the form of a stress test of the Bank's balance sheet show that upon occurrence of stress events, the implementation of the respective intended measures will fully allow the Bank to ensure an adequate level of liquidity.

(thousands of Russian rubles)

25. Risk management (continued)

Liquidity risk and funding management (continued)

The tables below show the analysis of liquidity risk as at 31 December 2016 and 2015:

As at 31 December 2016	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the CBR	3,283,342	–	–	–	–	189,206	3,472,548
Financial assets at fair value through profit or loss	33,977,327	–	–	–	–	–	33,977,327
Amounts due from credit institutions	10,470,242	–	–	–	–	50,782	10,521,024
Loans to customers	4,469,829	870,075	3,323,842	8,031,562	366,288	–	17,061,596
Available-for-sale investments	422,485	–	–	–	–	–	422,485
Other financial assets	780,696	–	–	–	–	–	780,696
Total financial assets	**53,403,921**	**870,075**	**3,323,842**	**8,031,562**	**366,288**	**239,988**	**66,235,676**
Property and equipment	–	–	–	–	–	94,308	94,308
Current income tax assets	–	–	21,092	–	–	–	21,092
Other non-financial assets	47,935	–	–	–	–	503,319	551,254
Total non-financial assets	**47,935**	**–**	**21,092**	**–**	**–**	**597,627**	**666,654**
Total assets	**53,451,856**	**870,075**	**3,344,934**	**8,031,562**	**366,288**	**837,615**	**66,902,330**
Liabilities							
Amounts due to credit institutions	14,415,191	–	58,505	–	–	–	14,473,696
Amounts due to customers	18,851,413	–	–	–	–	–	18,851,413
Debt securities issued	2,607,827	15,025	632,766	12,367	–	–	3,267,985
Other financial liabilities	144,498	130	1,490	33,398	–	–	179,516
Total financial liabilities	**36,018,929**	**15,155**	**692,761**	**45,765**	**–**	**–**	**36,772,610**
Other provisions	257,690	83,206	1,351,319	294,211	4,175	–	1,990,601
Deferred income tax liabilities	–	–	–	–	–	565,236	565,236
Other non-financial liabilities	10,371	103	–	–	–	–	10,474
Total non-financial liabilities	**268,061**	**83,309**	**1,351,319**	**294,211**	**4,175**	**565,236**	**2,566,311**
Total liabilities	**36,286,990**	**98,464**	**2,044,080**	**339,976**	**4,175**	**565,236**	**39,338,921**
Net assets and liabilities	**17,164,866**	**771,611**	**1,300,854**	**7,691,586**	**362,113**	**272,379**	**27,563,409**
Accumulated gap	**17,164,866**	**17,936,477**	**19,237,331**	**26,928,917**	**27,291,030**	**27,563,409**	

As at 31 December 2015	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the CBR	6,112,712	–	–	–	–	154,422	6,267,134
Financial assets at fair value through profit or loss	52,030,206	–	–	–	–	–	52,030,206
Amounts due from credit institutions	18,342,767	–	–	–	–	–	18,342,767
Loans to customers	15,869,265	731,982	2,699,978	3,655,197	321,437	–	23,277,858
Available-for-sale investments	47,709	–	–	–	–	–	47,709
Other financial assets	739,458	–	2,806	–	–	–	742,264
Total financial assets	**93,142,117**	**731,982**	**2,702,784**	**3,655,197**	**321,437**	**154,422**	**100,707,938**
Property and equipment	–	–	–	–	–	107,000	107,000
Other non-financial assets	12,159	–	30,050	–	–	536,450	578,659
Total non-financial assets	**12,159**	**–**	**30,050**	**–**	**–**	**643,450**	**685,659**
Total assets	**93,154,276**	**731,982**	**2,732,834**	**3,655,197**	**321,437**	**797,872**	**101,393,597**
Liabilities							
Amounts due to the CBR	8,990,258	–	–	–	–	–	8,990,258
Amounts due to credit institutions	27,473,277	–	–	146,130	–	–	27,619,407
Amounts due to customers	23,534,957	–	–	–	–	–	23,534,957
Debt securities issued	2,148,604	220,281	139,987	1,511,977	–	–	4,020,849
Other financial liabilities	130,077	140	–	16,331	–	–	146,548
Total financial liabilities	**62,277,173**	**220,421**	**139,987**	**1,674,438**	**–**	**–**	**64,312,019**
Other provisions	124,141	284,695	507,302	654,942	52	–	1,571,132
Current income tax liabilities	7,856	–	–	–	–	–	7,856
Deferred income tax liabilities	–	–	–	–	–	1,957,296	1,957,296
Other non-financial liabilities	8,641	1,232	–	–	–	–	9,873
Total non-financial liabilities	**140,638**	**285,927**	**507,302**	**654,942**	**52**	**1,957,296**	**3,546,157**
Total liabilities	**62,417,811**	**506,348**	**647,289**	**2,329,380**	**52**	**1,957,296**	**67,858,176**
Net assets and liabilities	**30,736,465**	**225,634**	**2,085,545**	**1,325,817**	**321,385**	**(1,159,424)**	**33,535,421**
Accumulated gap	**30,736,465**	**30,962,098**	**33,047,643**	**34,373,460**	**34,694,845**	**33,535,421**	

(thousands of Russian rubles)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Financial assets at fair value through profit or loss and available-for-sale investments owned by the Bank were classified into the "Less than 1 month" category, as management believes that all these assets can be realized within one month in the ordinary course of business.

Amounts due to customers and debt securities issued include term deposits of individuals and savings certificates. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (refer to Note 16). The Bank also classifies time deposits of legal entities in into the "Less than 1 month" category.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	14,431,045	59,302	–	–	14,490,347
Amounts due to customers	17,090,529	1,811,650	3,939	–	18,906,118
Debt securities issued	223,129	895,562	1,010,273	3,009,893	5,138,857
Other financial liabilities	144,628	–	46,377	–	191,005
Total undiscounted financial liabilities	**31,889,331**	**2,766,514**	**1,060,589**	**3,009,893**	**38,726,327**

As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to the CBR	9,026,726	–	–	–	9,026,726
Amounts due to credit institutions	27,580,989	–	153,685	–	27,734,674
Amounts due to customers	21,726,736	1,776,092	83,297	–	23,586,125
Debt securities issued	1,276,808	144,244	1,562,082	2,067,010	5,050,144
Other financial liabilities	129,962	–	21,902	–	151,864
Total undiscounted financial liabilities	**59,741,221**	**1,920,336**	**1,820,966**	**2,067,010**	**65,549,533**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2016	1,540,710	4,356,768	1,296,737	7,503	**7,201,718**
2015	1,904,625	1,477,677	2,517,575	52,354	**5,952,231**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Market risk is divided into price, interest rate and currency risks. This risk is inherent in all the Bank's operations, including investments in securities, foreign currency and partially lending transactions. Market risks are assessed by employees from the Treasury Department and the Central Finance Department under the control of the Risk

(thousands of Russian rubles)

Assessment Department.

(thousands of Russian rubles)

25. Risk management (continued)

Market risk (continued)

The Bank's Central Finance Department regularly provides to the Management Board data on movements in the balance sheet items and market risks, monitors the Bank's current financial performance, and estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Potential losses arising from the interest rate risk (being a risk of financial losses due to unfavorable changes in interest rates) are estimated by the Bank using gap-analysis, i.e. analysis of the difference between the amount of assets and liabilities that are sensitive to changes in interest rates (except for debt securities), determined for each time interval during a year. Gap amount (either positive or negative) allows performing analysis of a possible change in the Bank's net interest income due to interest rate fluctuations.

If a gap is positive (assets that are sensitive to changes in interest rates exceed relevant liabilities), net interest income will increase in case of growth of interest rates and decrease in case of fall in interest rates. If a gap is negative (assets that are sensitive to changes in interest rates are below relevant liabilities), net interest income will increase in case of fall in interest rates and decrease in case of growth of interest rates. The interest rate risk is determined as a gap multiplied by the expected change in interest rates.

The Bank assesses the impact of changes in interest rates on the market value of debt securities using a modified duration (weighted average term of payment flow) using a stress test where the interest rate changes by 200 basis points.

The Bank's management approves the level of interest rates in accordance with the risk management policies.

The interest rate risk inherent in credit-related transactions is managed in accordance with the following principles:

- Interest rate related to a transaction is set to cover possible fluctuations in the borrowing costs;
- Transactions are entered into for the period, where an adequate forecast of fluctuations in the market rates is possible. If transactions are entered into for a longer period, terms of a transaction rate revision are documented with the customer.

Calculation of the interest rate risk (except for debt securities) is as follows*:

As at 31 December 2016	*Less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 month to 1 year*	*Total within 1 year*
Total assets sensitive to changes in interest rates	**7,552,814**	**1,134,377**	**3,710,560**	**4,436,513**	**16,834,264**
Loans to legal entities	1,746,507	1,107,368	3,550,371	4,204,685	10,608,931
Loans to individuals	489,174	27,009	160,189	231,828	908,200
Reverse repurchase agreements	5,317,133	–	–	–	5,317,133
Total liabilities sensitive to changes in interest rates	**16,030,494**	**1,151,231**	**1,164,556**	**1,485,780**	**19,832,061**
Customer deposits	1,443,396	1,101,137	843,196	945,492	4,333,221
Liabilities arising from repurchase transactions	14,415,191	–	–	–	14,415,191
Promissory notes and savings certificates of the Bank	171,907	50,094	321,360	540,288	1,083,649
Difference between assets and liabilities sensitive to changes in interest rates	**(8,477,680)**	**(16,854)**	**2,546,004**	**2,950,733**	**(2,997,797)**
Effect on the financial performance in case of changes in interest rates					
3%	(21,194)	(84)	30,552	59,015	68,288
-3%	21,194	84	(30,552)	(59,015)	(68,288)

(thousands of Russian rubles)

25. Risk management (continued)

Market risk (continued)

As at 31 December 2015	*Less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 month to 1 year*	*Total within 1 year*
Total assets sensitive to changes in interest rates	**20,905,862**	**803,638**	**2,663,293**	**4,564,320**	**28,937,113**
Loans to legal entities	2,014,653	703,043	2,543,953	4,332,809	9,594,458
Loans to individuals	429,267	100,595	119,340	231,511	880,713
Reverse repurchase agreements	18,461,942	–	–	–	18,461,942
Total liabilities sensitive to changes in interest rates	**38,032,156**	**1,691,701**	**708,300**	**1,166,582**	**41,598,739**
Customer deposits	651,565	1,339,500	708,300	1,026,274	3,725,639
Liabilities arising from repurchase transactions	36,463,535	–	–	–	36,463,535
Promissory notes and savings certificates of the Bank	917,056	352,201	–	140,308	1,409,565
Difference between assets and liabilities sensitive to changes in interest rates	**(17,126,294)**	**(888,063)**	**1,954,993**	**3,397,738**	**(12,661,626)**
Effect on the financial performance in case of changes in interest rates					
3%	(42,816)	(4,440)	23,460	67,955	44,159
-3%	42,816	4,440	(23,460)	(67,955)	(44,159)

* The information is based on carrying amounts before allowance for impairment and presented by contractual maturities of the assets and liabilities.

The table below shows the sensitivity analysis of the Bank's profit before tax related to change in the market price on debt securities in case of 2% increase in interest rates:

	2016	*2015*
Effect on profit	(2,058,795)	(3,587,419)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. According to the applicable CBR regulations, currency risk is limited by open positions in certain currencies and precious metals. The Treasury Department measures its currency risk exposure on a daily (timely) basis through evaluation of actual open currency positions.

The table below indicates the currencies to which the Bank has significant exposure as at 31 December with its assets and liabilities. The analysis calculates the effect of a reasonably possible change in currency rates against the ruble, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive financial assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. Negative amounts in the table reflect a potential net reduction in the statement of profit or loss or the equity, while positive amounts reflect a net potential increase.

Currency	*Change in currency rate in % 2016*	*Effect on profit before tax 2016*	*Change in currency rate in % 2015*	*Effect on profit before tax 2015*
USD	20%	(74,001)	40%	(2,259,891)
	-20%	74,001	-13%	734,464
EUR	20%	(121,897)	43%	(161,086)
	-20%	121,897	-15%	56,193

(thousands of Russian rubles)

25. Risk management (continued)

Currency risk (continued)

The Bank's exposure to currency risk as at 31 December 2016 is as follows:

As at 31 December 2016	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the CBR	2,527,558	471,552	341,129	132,309	3,472,548
Financial assets at fair value through profit or loss	17,211,717	16,765,610	–	–	33,977,327
Amounts due from credit institutions	6,894,096	2,639,260	409,883	577,785	10,521,024
Loans to customers	14,713,894	2,312,473	35,027	202	17,061,596
Available-for-sale investments	422,485	–	–	–	422,485
Other financial assets	232,452	520,424	23,403	4,417	780,696
Total financial assets	**42,002,202**	**22,709,319**	**809,442**	**714,713**	**66,235,676**
Property and equipment	94,308	–	–	–	94,308
Current income tax assets	21,092	–	–	–	21,092
Other non-financial assets	540,382	–	–	10,872	551,254
Total non-financial assets	**655,782**	**–**	**–**	**10,872**	**666,654**
Total assets	**42,657,984**	**22,709,319**	**809,442**	**725,585**	**66,902,330**
Liabilities					
Amounts due to credit institutions	1,696,519	12,718,673	58,504	–	14,473,696
Amounts due to customers	11,719,128	5,282,443	1,239,139	610,703	18,851,413
Debt securities issued	3,130,630	16,394	120,961	–	3,267,985
Other financial liabilities	137,453	41,741	322	–	179,516
Total financial liabilities	**16,683,730**	**18,059,251**	**1,418,926**	**610,703**	**36,772,610**
Other provisions	1,990,601	–	–	–	1,990,601
Deferred income tax liabilities	565,236	–	–	–	565,236
Other non-financial liabilities	10,474	–	–	–	10,474
Total non-financial liabilities	**2,566,311**	**–**	**–**	**–**	**2,566,311**
Total liabilities	**19,250,041**	**18,059,251**	**1,418,926**	**610,703**	**39,338,921**
Open balance sheet position	**25,318,472**	**4,650,068**	**(609,484)**	**104,010**	**29,463,066**
Open position on derivative financial instruments	**5,020,073**	**(5,020,073)**	**–**	**–**	**–**
Open position	**30,338,545**	**(370,005)**	**(609,484)**	**104,010**	**29,463,066**

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25. Risk management (continued)

Currency risk (continued)

As at 31 December 2015	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the CBR	3,104,318	1,576,970	1,298,040	287,806	6,267,134
Financial assets at fair value through profit or loss	25,516,275	26,457,447	–	56,484	52,030,206
Amounts due from credit institutions	13,029,376	3,707,773	661,643	943,975	18,342,767
Loans to customers	22,986,115	13,914	277,829	–	23,277,858
Available-for-sale investments	47,660	–	–	49	47,709
Other financial assets	232,321	485,797	18,772	5,374	742,264
Total financial assets	**64,916,065**	**32,241,901**	**2,256,284**	**1,293,688**	**100,707,938**
Property and equipment	107,000	–	–	–	107,000
Other non-financial assets	568,530	–	–	10,129	578,659
Total non-financial assets	**675,530**	**–**	**–**	**10,129**	**685,659**
Total assets	**65,591,595**	**32,241,901**	**2,256,284**	**1,303,817**	**101,393,597**
Liabilities					
Amounts due to the CBR	8,990,258	–	–	–	8,990,258
Amounts due to credit institutions	27,473,277	–	146,130	–	27,619,407
Amounts due to customers	16,335,955	4,562,712	1,316,900	1,319,390	23,534,957
Debt securities issued	2,847,277	494,211	679,361	–	4,020,849
Other financial liabilities	95,044	50,439	367	698	146,548
Total financial liabilities	**55,741,811**	**5,107,362**	**2,142,758**	**1,320,088**	**64,312,019**
Other provisions	1,571,132	–	–	–	1,571,132
Current income tax liabilities	7,856	–	–	–	7,856
Deferred income tax liabilities	1,957,296	–	–	–	1,957,296
Other non-financial liabilities	9,873	–	–	–	9,873
Total non-financial liabilities	**3,546,157**	**–**	**–**	**–**	**3,546,157**
Total liabilities	**59,287,968**	**5,107,362**	**2,142,758**	**1,320,088**	**67,858,176**
Open balance sheet position	**9,174,254**	**27,134,539**	**113,526**	**(26,400)**	**36,395,919**
Open position on derivative financial instruments	**33,279,638**	**(32,784,266)**	**(488,145)**	**(7,227)**	**–**
Open position	**42,453,892**	**(5,649,727)**	**(374,619)**	**(33,627)**	**36,395,919**

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The non-trading equity price risk exposure arises from the Bank's investment portfolio. The Bank is exposed to equity price risk due to the effect of general or specific market changes.

Monitoring and controlling the risk is performed based on the limits established by the Bank. These limits reflect the Bank's behavioral strategy in the stock market, its understanding of macroeconomic factors and other market conditions, in which the Bank is operating, as well as the level of the risk accepted by the Bank.

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25. Risk management (continued)

Equity price risk (continued)

The effect on profit before tax and equity (as a result of change in fair value of equity instruments) due to a reasonably possible change in equity price indices is as follows:

Change in equity price 2016	*Effect on profit before tax 2016*	*Effect on equity 2016*
24%	3,908,448	100,645
-10%	(1,628,520)	(41,935)

Change in equity price 2015	*Effect on profit before tax 2015*	*Effect on equity 2015*
15%	2,124,608	4,813
-25%	(3,541,013)	(8,021)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Management believes that the Bank's exposure to prepayment risk is insignificant.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

All departments of the Bank, the functions of which assume certain possibility of realization of operational risk, control the exposure to this risk in the normal course of operational activities. These Bank's departments monitor the operational risk events and take practical steps for its limitation and mitigation. Risk Assessment Department systemizes the monitoring data obtained by the departments, identifies the areas highly exposed to operational risk and proposes complex measures to mitigate this risk.

26. Fair value measurement

Fair value measurement procedures

Classification of fair value measurement is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using the market data and reflect the materiality of the inputs used for the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(thousands of Russian rubles)

26. Fair value measurement (continued)

Fair value hierarchy

The Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Fair value measurement using			
As at 31 December 2016	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss	*33,050,809*	*926,518*	–	***33,977,327***
Eurobonds of the Russian Federation	16,765,610	–	–	**16,765,610**
Equity securities	16,285,199	–	–	**16,285,199**
Derivative financial instruments, including:	–	926,518	–	**926,518**
- Forwards (equity securities) – domestic	–	534	–	**534**
- Credit default swaps – foreign	–	925,272	–	**925,272**
- Forwards (precious metals) – domestic	–	712	–	**712**
Available-for-sale investments	*422,485*	–	–	***422,485***
Equity securities	422,485	–	–	**422,485**
Investment property	–	–	*503,319*	***503,319***
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	*3,472,548*	***3,472,548***
Amounts due from credit institutions	–	–	*10,521,024*	***10,521,024***
Loans to customers	–	–	*17,036,880*	***17,036,880***
Other financial assets	–	–	*780,696*	***780,696***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	*14,473,696*	***14,473,696***
Amounts due to customers	–	–	*18,862,769*	***18,862,769***
Debt securities issued	–	–	*3,281,711*	***3,281,711***
Other financial liabilities	–	–	*179,516*	***179,516***

	Fair value measurement using			
As at 31 December 2015	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss	*46,768,476*	*5,261,730*	–	***52,030,206***
Russian State bonds	5,020,580	2,901,308	–	**7,921,888**
Eurobonds of the Russian Federation	17,203,659	–	–	**17,203,659**
Russian sub-federal bonds	1,509,615	–	–	**1,509,615**
Corporate Eurobonds	9,253,787	–	–	**9,253,787**
Equity securities	13,780,835	383,218	–	**14,164,053**
Derivative financial instruments, including:	–	1,977,204	–	**1,977,204**
- Forwards (equity securities) – domestic	–	400	–	**400**
- Credit default swaps – foreign	–	1,976,804	–	**1,976,804**
Available-for-sale investments	*47,709*	–	–	***47,709***
Equity securities	47,709	–	–	**47,709**
Investment property	–	–	*501,475*	***501,475***
Assets for which fair values are disclosed				
Cash and accounts with the CBR	–	–	*6,267,134*	***6,267,134***
Amounts due from credit institutions	–	–	*18,342,767*	***18,342,767***
Loans to customers	–	–	*22,709,878*	***22,709,878***
Other financial assets	–	–	*742,264*	***742,264***
Liabilities measured at fair value				
Other liabilities (derivative financial instruments)	–	*255*	–	**–**
- Forwards (equity securities) – domestic	–	255	–	**–**
Liabilities for which fair values are disclosed				
Amounts due to the CBR	–	–	*8,990,258*	***8,990,258***
Amounts due to credit institutions	–	–	*27,619,407*	***27,619,407***
Amounts due to customers	–	–	*23,610,268*	***23,610,268***
Debt securities issued	–	–	*4,037,737*	***4,037,737***
Other financial liabilities			*146,293*	***146,293***

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

(thousands of Russian rubles)

26. Fair value measurement (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2016	*Fair value 2016*	*Unrecognized gain/(loss) 2016*	*Carrying amount 2015*	*Fair value 2015*	*Unrecognized gain/(loss) 2015*
Financial assets						
Cash and accounts with the CBR	3,472,548	3,472,548	–	6,267,134	6,267,134	–
Amounts due from credit institutions	10,521,024	10,521,024	–	18,342,767	18,342,767	–
Loans to customers	17,061,596	17,036,880	(24,716)	23,277,858	22,709,878	(567,980)
Other financial assets	780,696	780,696	–	742,264	742,264	–
Financial liabilities						
Amounts due to the CBR	–	–	–	8,990,258	8,990,258	–
Amounts due to credit institutions	14,473,696	14,473,696	–	27,619,407	27,619,407	–
Amounts due to customers	18,851,413	18,862,769	(11,356)	23,534,957	23,610,268	(75,311)
Debt securities issued	3,267,985	3,281,711	(13,726)	4,020,849	4,037,737	(16,888)
Other financial liabilities	179,516	179,516	–	146,293	146,293	–
Total unrecognized change in fair value			**(49,798)**			**(660,179)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values of assets and liabilities recorded at fair value in the financial statements and of those items that are not measured at fair value in the statement of financial position, but their fair value is disclosed.

Assets for which carrying amount approximates fair value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss and available-for-sale investments

Securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable 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.

Financial assets and financial liabilities carried at amortized cost

The fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Russian rubles)

26. Fair value measurement (continued)

Valuation methodologies and assumptions (continued)

Investment property

The Bank engages an independent appraiser for the investment property fair value measurement. For this purpose, the appraiser used income and market approaches.

Under the income approach, the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment.

The market approach is based on the prices of market transactions significantly adjusted with regard to differences in nature, location or condition of a specific real estate item.

Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets which are recorded at fair value:

	At 1 January 2016	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*31 December 2016*
Assets							
Investment property	501,475	91,844	–	–	–	(90,000)	503,319
	501,475	**91,844**	**–**	**–**	**–**	**(90,000)**	**503,319**

	At 1 January 2015	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*31 December 2015*
Assets							
Available-for-sale investments	13,459	–	–	–	–	(13,459)	–
Investment property	–	–	–	501,475	–	–	501,475
	13,459	**–**	**–**	**501,475**	**–**	**(13,459)**	**501,475**

Transfers between Level 1 and Level 2.

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value, during the reporting year:

	Transfers from Level 1 to Level 2	
	2016	*2015*
Financial assets		
Financial assets at fair value through profit or loss	–	2,901,248

In 2016, financial assets were not transferred between Level 1 and Level 2.

In 2015, the above financial assets were transferred from Level 1 to Level 2 as their fair values at relevant dates were obtained through valuation techniques using observable market inputs.

(thousands of Russian rubles)

27. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition:

		Financial assets at fair value through profit or loss			
2016	***Transferred financial asset***	***Government debt securities***	***Other debt securities***	***Other securities***	***Total***
Carrying amount of assets	Repurchase agreements	11,078,519	–	1,937,610	13,016,129
Total		**11,078,519**	**–**	**1,937,610**	**13,016,129**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	10,441,526	–	1,198,539	11,640,065
Total		**10,441,526**	**–**	**1,198,539**	**11,640,065**

		Financial assets at fair value through profit or loss			
2015	***Transferred financial asset***	***Government debt securities***	***Other debt securities***	***Other securities***	***Total***
Carrying amount of assets	Repurchase agreements	19,662,101	4,446,616	3,668,531	27,777,248
Total		**19,662,101**	**4,446,616**	**3,668,531**	**27,777,248**
Carrying amount of associated liabilities	Repurchase agreements with the CBR	3,642,615	4,001,261	1,346,382	8,990,258
	Repurchase agreements with credit institutions	14,411,185	–	976,953	15,388,138
Total		**18,053,800**	**4,001,261**	**2,323,335**	**24,378,396**

The securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

As at 31 December 2016, the fair value of securities purchased under reverse repurchase agreements and sold under repurchase agreements amounted to RUB 2,966,640 thousand (2015: RUB 13,431,903 thousand). The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2016 as amounts due to credit institutions of RUB 2,775,126 thousand (2015: RUB 12,085,139 thousand).

The carrying amount and fair value of securities sold under repurchase agreements was RUB 13,016,129 thousand as at 31 December 2016 (2015: RUB 27,777,248 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2016 as amounts due to the CBR of RUB 0 (2015: RUB 8,990,258 thousand) and as amounts due to credit institutions of RUB 11,640,065 thousand (2015: RUB 15,388,138 thousand).

(thousands of Russian rubles)

28. Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the statement of financial position:

2016	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	13,016,129	–	13,016,129	(11,640,065)	–	1,376,064
Total	**13,016,129**	**–**	**13,016,129**	**(11,640,065)**	**–**	**1,376,064**
Financial liabilities						
Payables under repurchase agreements	11,640,065	–	11,640,065	(11,640,065)	–	–
Total	**11,640,065**	**–**	**11,640,065**	**(11,640,065)**	**–**	**–**

2015	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	27,777,248	–	27,777,248	(24,378,397)	–	3,398,851
Total	**27,777,248**	**–**	**27,777,248**	**(24,378,397)**	**–**	**3,398,851**
Financial liabilities						
Payables under repurchase agreements	24,378,397	–	24,378,397	(24,378,397)	–	–
Total	**24,378,397**	**–**	**24,378,397**	**(24,378,397)**	**–**	**–**

29. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(thousands of Russian rubles)

29. Related party disclosures (continued)

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	2016		2015	
	Transactions with related parties	*Total category as per the financial statements*	*Transactions with related parties*	*Total category as per the financial statements*
Loans to customers	501,068	31,716,313	435,563	38,042,271
- Key management personnel	*68,794*		*68,955*	
- Entities under common control	*432,274*		*366,608*	
Allowance for impairment of loans to customers	(363,379)	(14,654,717)	(316,943)	(14,764,413)
- Key management personnel	*(39,254)*		*(39,390)*	
- Entities under common control	*(324,125)*		*(277,553)*	
Amounts due to customers	(709,205)	(18,851,413)	(1,790,165)	(23,534,957)
- Shareholders	*(593,203)*		*(1,577,975)*	
- Key management personnel	*(115,920)*		*(128,343)*	
- Entities under common control	*(82)*		*(83,847)*	
Debt securities issued	(1,986,498)	(3,267,985)	(943,050)	(4,020,849)
- Shareholders	*(1,970,037)*		*(911,591)*	
- Key management personnel	*(16,461)*		*(31,459)*	
Other liabilities	(31,471)	(189,990)	(22,664)	(156,421)
- Shareholders	*(3,268)*		*(1,697)*	
- Key management personnel	*(28,203)*		*(20,967)*	
Issued guarantees and loan commitments	11,186	7,201,718	12,949	5,952,231
- Key management personnel	*4,000*		*2,424*	
- Entities under common control	*7,186*		*10,525*	

The income and expense arising from related party transactions are as follows:

	2016		2015	
	Transactions with related parties	*Total category as per the financial statements*	*Transactions with related parties*	*Total category as per the financial statements*
Interest income	61,477	4,555,125	279,079	7,559,315
- Shareholders	–		*11,733*	
- Key management personnel	*4,618*		*1,610*	
- Entities under common control	*56,859*		*265,736*	
Interest expense	(114,051)	(2,128,369)	(122,497)	(3,516,189)
- Shareholders	*(106,119)*		*(105,608)*	
- Key management personnel	*(7,932)*		*(16,889)*	
(Allowances)/reversal of allowances for impairment of interest-earning assets	(58,333)	(356,519)	570,259	863,376
- Shareholders	–		*1,972*	
- Key management personnel	*393*		*(5,318)*	
- Entities under common control	*(58,726)*		*573,605*	
Net gains from foreign currencies	88,735	(2,027,396)	152,158	7,512,665
- Shareholders	*66,548*		*(145,118)*	
- Key management personnel	*22,187*		*(213,060)*	
- Entities under common control	–		*510,336*	
Fee and commission income	1,286	393,504	2,778	306,442
- Shareholders	*551*		*580*	
- Key management personnel	*311*		*825*	
- Entities under common control	*424*		*1,373*	
Other income	6,734	177,914	–	97,621
- Shareholders	*6,698*		–	
- Key management personnel	*36*		–	
Other operating expenses	(5,735)	(598,880)	(5,046)	(382,465)
- Shareholders	*(3,255)*		*(818)*	
- Key management personnel	*(2,480)*		*(4,228)*	

(thousands of Russian rubles)

29. Related party disclosures (continued)

Compensation to key management personnel comprises the following:

	2016	*2015*
Salaries and other short-term benefits	58,513	63,237
Long-term employee benefits	20,672	16,331
Mandatory pension contributions	7,387	7,882
Social security costs	3,467	3,586
Total key management personnel compensation	**90,039**	**91,036**

Key management personnel are represented by Chairman of the Management Board, members of the Management Board, the Board of Directors and the Credit Committee.

30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business.

In view of adoption of the internationally recognized approaches for capital adequacy assessment established by the Basel Committee of Banking Supervision (Basel III), in the course of implementation of the capital management policy the Bank evaluates the capital adequacy based on the methodology set up in the regulations issued by the Bank of Russia.

During 2016 and 2015, the Bank was in fully compliance with all externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio

The Bank regularly monitors the capital adequacy to comply with the minimum capital adequacy ratios set up by the regulations issued by the CBR:

- Core capital adequacy ratio – not less than 4.5% (2015: not less than 4.5%).
- Main capital adequacy ratio – not less than 6.0% (2015: not less than 6%).
- Equity (capital) adequacy ratio – not less than 8.0% (2015: not less than 10.0%).

The following table shows the composition of the Bank’s capital computed in accordance with the normative acts of the CBR which are based on Basel III requirements, as at 31 December:

	2016	*2015*
Core capital	24,523,752	23,675,150
Main capital	**24,523,752**	**23,675,150**
Additional capital	–	3,270,423
Total capital	**24,523,752**	**26,945,573**
Risk-weighted assets	**136,123,926**	**101,055,990**
Core capital adequacy ratio	18.0%	23.4%
Main capital adequacy ratio	18.0%	23.4%
Equity (capital) adequacy ratio	18.0%	26.7%