CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2016

Contents

Auditors’ Report ... 3
Consolidated Statement of Profit or Loss and Other Comprehensive Income ... 9
Consolidated Statement of Financial Position ... 10
Consolidated Statement of Cash Flows ... 11
Consolidated Statement of Changes in Equity ... 13
Notes to the Consolidated Financial Statements ... 14
1 Background ... 14
2 Basis of preparation ... 15
3 Significant accounting policies ... 16
4 Net interest income ... 31
5 Net fee and commission income ... 31
6 Salaries, employment benefits and administrative expenses ... 32
7 Provision for impairment of other assets and credit related commitments ... 32
8 Income tax ... 32
9 Cash and cash equivalents ... 34
10 Deposits in credit and other financial institutions ... 34
11 Financial instruments at fair value through profit or loss ... 36
12 Available-for-sale securities ... 37
13 Loans to customers ... 38
14 Property and equipment ... 44
15 Other assets ... 46
16 Deposits by the Central Bank of the Russian Federation ... 46
17 Deposits by credit and other financial institutions ... 47
18 Deposits by customers ... 47
19 Debt securities issued ... 48
20 Other liabilities ... 48
21 Share capital ... 49
22 Commitments ... 49
23 Operating leases ... 50
24 Contingencies ... 50
25 Custody activities ... 51
26 Related party transactions ... 52
27 Capital management ... 52
28 Analysis by segment ... 55
29 Risk management, corporate governance and internal control ... 56
30 Transfers of financial assets ... 75
31 Financial assets and liabilities: fair values and accounting classifications ... 75
32 Earnings per share ... 78
33 Acquisitions and disposals ... 78
34 Events subsequent to the reporting date ... 79

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Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: Credit Bank of Moscow (public joint-stock company).

Registration number in the Unified State Register of Legal Entities 1027739555282.

Moscow, Russia.

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

Registration number in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Impairment of loans to customers	
Please refer to the note 13 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The impairment of loans to customers is estimated by management through application of judgment and use of highly subjective assumptions. Due to the significance of loans to customers (representing 40% of total assets) and the related estimation uncertainty, this is considered a key audit risk. We focused on adequacy of collective impairment allowance for loans to corporate clients calculation versus historical losses incurred. We paid particular attention to assumptions and methodology used for calculation of impairment allowance for loans to corporate clients, including analysis of future cash flows for collateralized loans with signs of impairment. For loans to individuals we focused on key assumptions and judgements made by the Group in calculation of impairment allowance.	We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans to corporate clients. With respect to not impaired loans to corporate clients, where impairment is calculated based on historic data, we assessed whether historic experience was reflective of the losses incurred in the portfolio based upon the current economic environment and the current circumstances of the borrowers by comparing historical information to our own assessment. For a sample of exposures that were subject to an individual impairment assessment, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realizable collateral based on our own understanding and available market information. For impairment of loans to individuals calculated using statistical models, we tested the basis and operation of those models and the data used. • We tested whether historical losses are calculated accurately and compared main assumptions to our own assessment in relation to key inputs. • We tested system-generated reports for impairment calculation in respect of completeness and accuracy of data used and the calculations within the reports. We also assessed IT controls over timely reflection of default events in the underlying systems. We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.

4

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2016 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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

- the Group's compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

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

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

  - as at 31 December 2016, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

  - the Bank's internal documentation, effective on 31 December 2016, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;

  - as at 31 December 2016, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

  - the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2016, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;

  - as at 31 December 2016, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2016 the Supervisory Board and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is:

Kolosov A. E.

JSC "KPMG"

Moscow, Russia

15 March 2017

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG * МОСКВА *

	Notes	2016 RUB'000	2015 RUB'000
Interest income	4	113 398 443	89 210 510
Interest expense	4	(73 099 118)	(59 922 036)
Net interest income	4	**40 299 325**	**29 288 474**
Provision for impairment of loans	13	(29 783 276)	(26 035 950)
Net interest income after provision for impairment of loans		**10 516 049**	**3 252 524**
Fee and commission income	5	13 393 746	9 342 662
Fee and commission expense	5	(2 246 735)	(1 717 768)
Net gain on financial instruments at fair value through profit or loss		234 843	1 201 576
Net realized gain (loss) and impairment of available-for-sale assets		1 207 698	(400 913)
Net foreign exchange gains		6 065 151	2 742 778
State deposit insurance scheme contributions		(920 428)	(707 566)
Operating lease income		1 252 106	41 839
Other operating losses, net		(548 803)	(564 752)
Non-interest income		**18 437 578**	**9 937 856**
Operating income		**28 953 627**	**13 190 380**
Salaries and employment benefits	6	(7 700 313)	(5 518 561)
Administrative expenses	6	(5 259 675)	(4 201 011)
Depreciation of property and equipment	14	(1 481 345)	(618 295)
Provisions for impairment of other assets and credit related commitments	7	(777 758)	(907 971)
Operating expense		**(15 219 091)**	**(11 245 838)**
Profit before income taxes		**13 734 536**	**1 944 542**
Income tax	8	(2 860 919)	(435 071)
Profit for the year		**10 873 617**	**1 509 471**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
- revaluation of buildings		(102 089)	(433 440)
- income tax for revaluation of buildings		20 418	86 688
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale securities:			
- net change in fair value		1 557 727	2 021 394
- net change in fair value transferred to profit or loss		(1 269 319)	(149 397)
- income tax related to revaluation reserve for securities		(57 682)	(374 398)
Exchange differences on translation:			
- exchange differences on translation		45 076	-
- income tax related to exchange differences on translation		(5 635)	-
Other comprehensive income for the year, net of tax		**188 496**	**1 150 847**
Total comprehensive income for the year		**11 062 113**	**2 660 318**
Basic and diluted earnings per share (in RUB per share)	32	**0.46**	**0.09**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

	Notes	31 December 2016 RUB'000	31 December 2015 RUB'000
ASSETS			
Cash and cash equivalents	9	373 326 515	138 014 586
Obligatory reserves with the Central Bank of the Russian Federation		7 286 909	5 936 111
Deposits in credit and other financial institutions	10	403 480 148	277 295 869
Financial instruments at fair value through profit or loss, including	11	83 908 535	72 136 989
- *pledged under sale and repurchase agreements*	*11*	*6 543 543*	*2 654 432*
Available-for-sale securities, including	12	45 903 483	87 402 909
- *pledged under sale and repurchase agreements*	*12*	*19 818 447*	*2 115 753*
Loans to customers	13	626 535 060	593 065 265
- *loans to corporate customers*	*13*	*533 470 046*	*482 423 222*
- *loans to individuals*	*13*	*93 065 014*	*110 642 043*
Property and equipment	14	21 278 058	7 004 418
Other assets	15	6 249 914	27 344 481
Total assets		**1 567 968 622**	**1 208 200 628**
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	247 169 523	4 044 647
Deposits by credit and other financial institutions	17	381 624 465	84 659 913
Deposits by customers	18	689 495 720	898 692 231
- *deposits by corporate customers*	*18*	*440 842 162*	*697 763 224*
- *deposits by individuals*	*18*	*248 653 558*	*200 929 007*
Debt securities issued	19	137 203 416	121 154 765
Deferred tax liability	8	189 860	2 380 552
Other liabilities	20	8 885 063	4 930 058
Total liabilities		**1 464 568 047**	**1 115 862 166**
Equity			
Share capital	21	24 741 640	24 741 640
Additional paid-in capital		35 047 463	35 047 463
Revaluation surplus for buildings		687 505	769 176
Revaluation reserve for available-for-sale securities		450 796	220 070
Currency translation reserve		39 441	-
Retained earnings		42 433 730	31 560 113
Total equity		**103 400 575**	**92 338 462**
Total liabilities and equity		**1 567 968 622**	**1 208 200 628**

Commitments and Contingencies 22-24

Chairman of the Management Board Vladimir A. Chubar

Chief Accountant Svetlana V. Sass

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

	Notes	2016 RUB'000	2015 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		109 336 595	82 579 116
Interest payments		(69 792 574)	(57 056 559)
Fees and commission receipts		13 714 257	9 853 178
Fees and commission payments		(2 246 735)	(1 717 768)
Net receipts from operations with securities		1 327 569	38 301
Net receipts (payments) from foreign exchange		3 037 123	(1 246 606)
State deposit insurance scheme contributions payments		(851 118)	(670 637)
Net other operating income receipts		242 458	1 023 813
Operating leases income receipts		1 241 135	-
Salaries and employment benefits paid		(7 684 268)	(5 456 036)
Administrative expenses paid		(4 990 375)	(4 883 334)
Income tax paid		(3 413 817)	(973 465)
Operating cash flows before changes in operating assets and liabilities		**39 920 250**	**21 490 003**
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(1 350 070)	(2 559 553)
Deposits in credit and other financial institutions		(177 327 458)	(243 752 224)
Financial instruments at fair value through profit or loss		(11 390 215)	(19 468 573)
Loans to customers		(95 122 562)	(208 355 528)
Other assets		1 131 869	(13 930 901)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		249 438 913	(15 523 831)
Deposits by credit and other financial institutions except syndicated and subordinated loans		319 980 875	37 250 376
Deposits by customers except subordinated loans		(128 547 707)	498 370 144
Promissory notes issued		238 088	(3 966 999)
Other liabilities		1 166 885	23 546
Net cash from operations		**198 138 868**	**49 576 460**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale securities		(51 859 409)	(127 350 888)
Proceeds from disposal and redemption of available-for-sale securities		80 456 809	59 860 188
Net (payment) receipt on acquisition of subsidiaries		(193 630)	2 576 481
Purchase of property and equipment		(912 960)	(479 906)
Sale of property and equipment		76 958	3 312
Purchase of investment property		(370 000)	-
Net cash from (used in) investing activities		**27 197 768**	**(65 390 813)**

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

	Notes	2016 RUB'000	2015 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		-	29 690 654
Proceeds from subordinated deposits		-	20 828 090
Repayment of subordinated deposits		(700 857)	-
Proceeds from syndicated borrowings		-	251 237
Repayment of syndicated borrowings		-	(22 696 240)
Proceeds from issuance of other bonds		44 535 809	3 000 000
Repayment of other bonds		(14 870 106)	(11 998 080)
Net cash from financing activities		**28 964 846**	**19 075 661**
Effect of exchange rates changes on cash and cash equivalents		(18 989 553)	16 056 357
Change in cash and cash equivalents		**235 311 929**	**19 317 665**
Cash and cash equivalents, beginning of the period		138 014 586	118 696 921
Cash and cash equivalents, end of the period	9	**373 326 515**	**138 014 586**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

	Share capital	Additional paid-in capital	Shares in the process of issue	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Currency translation reserve	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2015	**15 329 692**	**9 768 757**	**5 000 000**	**1 115 928**	**(1 277 529)**	**-**	**30 050 642**	**59 987 490**
Total comprehensive income for the year	-	-	-	(346 752)	1 497 599	-	1 509 471	**2 660 318**
Shares issued (note 21)	9 411 948	25 278 706	(5 000 000)	-	-	-	-	**29 690 654**
31 December 2015	**24 741 640**	**35 047 463**	**-**	**769 176**	**220 070**	**-**	**31 560 113**	**92 338 462**
Total comprehensive income for the year	-	-	-	(81 671)	230 726	39 441	10 873 617	11 062 113
31 December 2016	**24 741 640**	**35 047 463**	**-**	**687 505**	**450 796**	**39 441**	**42 433 730**	**103 400 575**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «МОСКОВСКИЙ КРЕДИТНЫЙ БАНК» * БАНК РОССИИ № 1978 * 107045, г. Москва, Луков переулок, д.2, стр. 1

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

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 91 branches, 1 026 ATMs and 5 725 payment terminals.

The principal subsidiaries of the Group are as follows:

			Degree of control, %	
Name	**Country of incorporation**	**Principal activities**	**31 December 2016**	**31 December 2015**
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Leasing Group	Russia	Finance leasing	100%	100%
INKAKHRAN Group	Russia	Cash handling	100%	100%
CBM Ireland Leasing Limited	Ireland	Operating leasing	100%	-
LLC Bank SKS	Russia	Investment banking	100%	-
CJSC Mortgage Agent MKB	Russia	Raising finance	100%	100%
LLC Mortgage Agent MKB 2	Russia	Raising finance	100%	-

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", CJSC "Mortgage Agent MKB" and "LLC Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. "LLC Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2016. CBM Ireland Leasing Limited was established for operating leasing of aircrafts. In August 2016 the Bank acquired 100% of shares in LLC Bank SKS to develop investment banking activities (note 33).

Shareholders

The Bank's shareholders as at 31 December 2016 are:

- LLC Concern Rossium - 56.83%
- RegionFinanceResurs, JSC – 8.19%
- LLC IC Algoritm – 5.39%
- European Bank for Reconstruction and Development (EBRD) – 4.54%
- LLC Savings Management – 3.86%
- RBOF Holding Company I Ltd - 2.68%
- JSC EG Capital Partners – 1.99%

- International Finance Corporation (IFC) – 1.69%
- PJSC Saint-Petersburg Bank – 1.53%
- JSC EFG Assets Management– 1.34%
- Powerboom Investments Limited – 1.32%
- Other shareholders - 10.64%.

The majority shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries except for CBM Ireland Leasing Limited, whose functional currency is USD, is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Foreign currencies, particularly USD and euro, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and euro against RUB, defined by the CBR:

	31 December 2016	31 December 2015
USD	60.6569	72.8827
Euro	63.8111	79.6972

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 14 in respect of buildings revaluation, in note 31 in respect of estimates of fair values of financial assets and liabilities.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

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

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

Subsidiaries

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

Structured entities

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

Transactions eliminated on consolidation

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

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

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

Inflation accounting

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

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central Bank of the Russian Federation and deposits in credit and other financial institutions with maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amotised cost in the consolidated statement of financial position.

Financial instruments

Classification

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

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

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

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

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments which are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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

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

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

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

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central Bank of the Russian Federation and deposits by credit and other financial institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

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

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

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

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

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

Offsetting

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

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term.

Group as lessee

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

Leased assets

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

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

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

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

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

Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

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

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

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

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

Financial assets carried at amortized cost

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

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service has been provided.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment reporting

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 Financial instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement* and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

– the remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months (‘12-month ECL’) or expected credit losses resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements. Currently the Group is in the process of development of IFRS 9 implementation plan.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(c) IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(d) Other amendments

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*).

(e) Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2017. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2016 RUB'000	2015 RUB'000
Interest income		
Loans to customers	81 818 464	70 292 773
Financial instruments at fair value through profit or loss and available-for-sale securities	12 129 905	9 748 051
Deposits in credit and other financial institutions and the Central Bank of the Russian Federation	19 450 074	9 169 686
	113 398 443	**89 210 510**
Interest expense		
Deposits by customers	(53 928 109)	(44 195 297)
Debt securities issued	(10 772 522)	(11 398 722)
Deposits by credit and other financial institutions and the Central Bank of the Russian Federation	(8 398 487)	(4 328 017)
	(73 099 118)	**(59 922 036)**
Net interest income	**40 299 325**	**29 288 474**

5 Net fee and commission income

	2016 RUB'000	2015 RUB'000
Fee and commission income		
Cash handling	2 588 802	1 546 129
Plastic cards	2 383 794	1 923 007
Guarantees and letters of credit	2 008 993	1 591 936
Insurance contracts processing	1 932 198	1 276 027
Settlements and wire transfers	1 755 045	1 040 696
Other cash operations	1 654 829	923 604
Currency exchange commission	472 953	353 201
Opening and maintenance of bank accounts	446 071	272 983
Other	151 061	415 079
	13 393 746	**9 342 662**
Fee and commission expense		
Settlements, wire transfers and plastic cards	(2 040 174)	(1 569 293)
Other	(206 561)	(148 475)
	(2 246 735)	**(1 717 768)**
Net fee and commission income	**11 147 011**	**7 624 894**

6 Salaries, employment benefits and administrative expenses

	2016 RUB'000	2015 RUB'000
Salaries	6 082 179	4 286 486
Social security costs	1 517 386	1 102 588
Other	100 748	129 487
Salaries and employment benefits	**7 700 313**	**5 518 561**
Occupancy	1 120 972	816 209
Advertising and business development	906 634	921 701
Property maintenance	660 098	396 450
Security	619 451	349 277
Operating taxes	585 528	531 235
Write-off of low-value fixed assets	336 050	90 958
Communications	184 625	129 379
Property insurance	182 543	91 887
Legal and consulting services	182 281	95 941
Computer maintenance and software expenses	164 161	166 357
Transport	122 914	272 045
Loss on revaluation of buildings	69 067	223 672
Other	125 351	115 900
Administrative expenses	**5 259 675**	**4 201 011**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	2016 RUB'000	2015 RUB'000
Provision for impairment of other assets	507 127	(889)
Provision for impairment of credit related commitments	270 631	908 860
Other provisions	**777 758**	**907 971**

8 Income tax

	2016 RUB'000	2015 RUB'000
Current tax charge	5 095 465	476 605
Deferred taxation	(2 234 546)	(41 534)
Income tax expense	**2 860 919**	**435 071**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2016 and 2015.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	2016 RUB'000	%	2015 RUB'000	%
Income before tax	13 734 536		1 944 542	
Income tax using the applicable tax rate	2 746 907	20.0%	388 908	20.0%
Income taxed at lower rates	(27 808)	(0.2%)	(5 341)	(0.3%)
Net non-deductible costs	141 820	1.0%	51 504	2.7%
Income tax expense	**2 860 919**	**20.8%**	**435 071**	**22.4%**

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows.

RUB'000	Balance 1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2016
Deposits in credit and other financial institutions	2 591	(2 218)	-	-	373
Financial instruments at fair value through profit or loss	172 858	34 435	-	-	207 293
Available-for-sale securities	1 953 830	(3 666 412)	57 682	-	(1 654 900)
Loans to customers	1 254 542	1 422 827	-	-	2 677 369
Property and equipment	317 092	(63 583)	(20 418)	-	233 091
Other assets	(710 321)	263 880	-	955	(445 486)
Deposits by credit and other financial institutions	382	(230)	-	-	152
Deposits by customers	12 069	35 918	-	-	47 987
Debt securities issued	36 733	(11 589)	-	-	25 144
Currency translation reserve	-	-	5 635	-	5 635
Other liabilities	(659 224)	(247 574)	-	-	(906 798)
Total deferred tax liability (asset)	**2 380 552**	**(2 234 546)**	**42 899**	**955**	**189 860**

RUB'000	Balance 1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2015
Deposits in credit and other financial institutions	2 836	(245)	-	-	2 591
Financial instruments at fair value through profit or loss	(2 200)	175 058	-	-	172 858
Available-for-sale securities	334 840	1 244 592	374 398	-	1 953 830
Loans to customers	1 531 144	(276 602)	-	-	1 254 542
Property and equipment	476 077	(59 212)	(86 688)	(13 085)	317 092
Other assets	(48 741)	(645 099)	-	(16 481)	(710 321)
Deposits by credit and other financial institutions	19 918	(19 536)	-	-	382
Deposits by customers	390	11 679	-	-	12 069
Debt securities issued	45 835	(9 102)	-	-	36 733

RUB'000	Balance 1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2015
Other liabilities	(163 764)	(463 067)	-	(32 393)	(659 224)
Total deferred tax liability (asset)	**2 196 335**	**(41 534)**	**287 710**	**(61 959)**	**2 380 552**

Income tax recognized in other comprehensive income

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

	2016			2015		
RUB'000	**Amount before tax**	**Tax benefit / (expense)**	**Amount net-of-tax**	**Amount before tax**	**Tax benefit / (expense)**	**Amount net-of-tax**
Revaluation surplus for buildings	(102 089)	20 418	(81 671)	(433 440)	86 688	(346 752)
Revaluation reserve for available-for-sale securities	288 408	(57 682)	230 726	1 871 997	(374 398)	1 497 599
Currency translation reserve	45 076	(5 635)	39 441	-	-	-
Other comprehensive income	**231 395**	**(42 899)**	**188 496**	**1 438 557**	**(287 710)**	**1 150 847**

9 Cash and cash equivalents

	31 December 2016 RUB'000	31 December 2015 RUB'000
Cash on hand	18 762 889	17 344 885
Correspondent account with the Central Bank of the Russian Federation	22 767 534	27 453 843
Nostro accounts with other banks		
rated from AA+ to AA-	1 132 588	5 328 877
rated from A+ to A-	3 620 669	5 690 810
rated from BBB+ to BBB-	74 357 432	6 830 951
rated from BB+ to BB-	873 138	882 723
rated from B+ to B-	26 880	184 616
not rated	518 223	877 347
Total nostro accounts with other banks	**80 528 930**	**19 795 324**
Deposits in credit and other financial institutions with maturity of less than 1 month		
rated from A+ to A-	5 051 814	17 618 251
rated from BBB+ to BBB-	9 607 911	6 385 399
rated from BB+ to BB-	12 444 223	12 850 750
rated from B+ to B-	64 197 877	21 887 770
not rated	159 965 337	14 678 364
Total deposits in credit and other financial institutions with maturity of less than 1 month	**251 267 162**	**73 420 534**
Total cash and cash equivalents	**373 326 515**	**138 014 586**

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2016, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 228 615 945 thousand (31 December 2015: RUB 50 735 211 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 278 955 216 thousand (31 December 2015: RUB 56 143 699 thousand).

As at 31 December 2016, not rated deposits in credit and other financial institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 158 264 335 thousand (31 December 2015: RUB 14 478 366 thousand).

As at 31 December 2016, the Group has three counterparties (31 December 2015: one counterparty) whose nostro accounts with other banks and deposits with maturity of less than 1 month exceed 10% of total nostro accounts with other banks and deposits with maturity of less than 1 month from credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 256 992 973 thousand (31 December 2015: RUB 17 618 251 thousand).

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in note 29.

10 Deposits in credit and other financial institutions

	31 December 2016 RUB'000	31 December 2015 RUB'000
Term deposits		
rated from BBB+ to BBB-	-	44 132 015
rated from BB+ to BB-	1 505 895	22 211 830
rated from B+ to B-	167 063 240	26 076 109
rated from CCC+ to CCC-	29 558 065	27 792 362
not rated	205 352 948	157 083 553
Total deposits in credit and other financial institutions	**403 480 148**	**277 295 869**

No amounts of deposits in credit and other financial institutions are impaired or past due.

As at 31 December 2016, receivables under reverse sale and repurchase agreements included in deposits in credit and other financial institutions are RUB 397 590 782 thousand (31 December 2015: RUB 238 815 412 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 483 281 200 thousand (31 December 2015: RUB 269 671 374 thousand).

As at 31 December 2016 included in not rated and rated from CCC+ to CCC- deposits in credit and other financial institutions are receivables in the amount of RUB 232 989 267 thousand (31 December 2015: RUB 181 062 949 thousand) secured by highly liquid rated debt securities under agreements to resell (reverse repo).

As at 31 December 2016, the Group has two counterparties (31 December 2015: three counterparties) whose deposit balances exceed 10% of total deposits in credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 365 788 181 thousand (31 December 2015: RUB 210 587 665 thousand).

Information about the currency and maturity and effective interest rates on deposits in credit and other financial institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2016 RUB'000	31 December 2015 RUB'000
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1 047 292	508 810
Russian Government eurobonds	1 744 952	-
Moscow Government bonds	-	223 936
Regional authorities and municipal bonds	4 298 054	3 391 004
Corporate bonds		
rated AAA	-	170 475
from BBB+ to BBB-	33 601 949	22 847 946
from BB+ to BB-	19 614 418	20 382 401
from B+ to B-	8 582 567	15 260 063
not rated	5 925 802	5 771 732
Equity investments	947	-
Derivative financial instruments	2 549 011	926 190
Total held by the Group	**77 364 992**	**69 482 557**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government eurobonds	267 767	-
Regional authorities and municipal bonds	-	2 303 352
Corporate bonds		
from BBB+ to BBB-	315 016	219 288
from BB+ to BB-	5 960 760	131 792
Total pledged under sale and repurchase agreements	**6 543 543**	**2 654 432**
Total financial instruments at fair value through profit or loss	**83 908 535**	**72 136 989**

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2016, debt instruments in the amount of RUB 64 806 957 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2015: RUB 64 464 969 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2016 and 2015 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	2015 RUB'000	2016	2015
Buy RUB sell USD				
Less than 3 months	147 666 979	46 951 167	61.8561	72.0062
Between 3 months and 6 months	3 336 130	-	62.3000	-

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	**2015 RUB'000**	**2016**	**2015**
Buy USD sell RUB				
Less than 3 months	7 445 050	14 527 633	70.5146	73.8118
Between 1 years and 2 years	-	7 078 650	-	70.7865
Buy USD sell EUR				
Less than 3 months	2 552 444	3 984 860	1.0678	1.0978
Between 3 months and 6 months	3 199 023	3 984 860	1.1010	1.1405
Between 6 months and 9 months	-	3 984 860	-	1.1525
Buy RUB sell EUR				
Less than 3 months	2 090 898	16 503 696	67.0165	79.1222
Buy EUR sell USD				
Less than 3 months	2 415 179	885 689	1.0495	1.0938
Buy EUR sell RUB				
Less than 3 months	12 879	11 869 556	64.3926	79.0982
Buy GBP sell RUB				
Less than 3 months	-	5 940	-	108.0000
Buy JPY sell EUR				
Less than 3 months	12 762	-	123.3100	-

12 Available-for-sale securities

	31 December 2016 RUB'000	**31 December 2015 RUB'000**
Held by the Group		
Corporate bonds		
from BBB+ to BBB-	1 537 937	23 519 257
from BB+ to BB-	8 589 521	40 615 035
from B+ to B-	6 265 605	5 827 315
from CCC+ to CCC-	-	121 821
not rated	9 580 316	3 159 347
Promissory notes		
from BB+ to BB-	-	8 389 557
from B+ to B-	-	3 543 557
Equity investments	111 657	111 267
Total held by the Group	**26 085 036**	**85 287 156**
Pledged under sale and repurchase agreements		
Corporate bonds		
from BBB+ to BBB-	5 428 091	249 696
from BB+ to BB-	14 390 356	1 866 057
Total pledged under sale and repurchase agreements	**19 818 447**	**2 115 753**
Total available-for-sale securities	**45 903 483**	**87 402 909**

No available-for-sale securities are past due.

As at 31 December 2016, debt instruments in the amount of RUB 31 536 475 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2015: RUB 62 223 479 thousand).

13 Loans to customers

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to corporate clients	566 168 132	510 205 763
Impairment allowance	(32 698 086)	(27 782 541)
Loans to corporate clients, net	**533 470 046**	**482 423 222**
Loans to individuals		
Auto loans	1 182 717	3 307 156
Mortgage loans	23 861 366	21 559 432
Credit card loans	3 782 617	4 141 275
Other loans to individuals	71 743 616	90 725 254
Impairment allowance	(7 505 302)	(9 091 074)
Total loans to individuals, net	**93 065 014**	**110 642 043**
Gross loans to customers	**666 738 448**	**629 938 880**
Impairment allowance	(40 203 388)	(36 873 615)
Net loans to customers	**626 535 060**	**593 065 265**

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to customers		
- Not past due	617 223 963	562 343 490
- Not past due but impaired	30 214 693	21 794 590
- Overdue less than 31 days	1 857 057	7 398 954
- Overdue 31-60 days	1 209 968	4 356 496
- Overdue 61-90 days	963 896	1 606 736
- Overdue 91-180 days	1 543 766	10 882 199
- Overdue 181-360 days	6 212 399	18 205 851
- Overdue more than 360 days	7 512 706	3 350 564
Total gross loans to customers	**666 738 448**	**629 938 880**
Impairment allowance	**(40 203 388)**	**(36 873 615)**
Total net loans to customers	**626 535 060**	**593 065 265**

As at 31 December 2016, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 19 299 792 thousand, which represents 2.9% of the gross loan portfolio (31 December 2015: RUB 45 800 800 thousand and 7.3% respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 15 268 871 thousand or 2.3% of the gross loan portfolio (31 December 2015: RUB 32 438 614 thousand and 5.1%, respectively).

As at 31 December 2016, the ratio of total impairment allowance to overdue loans equals 208.3%

and the ratio of total impairment allowance to NPLs equals 263.3% (31 December 2015: 80.5% and 113.7%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	**36 873 615**	**16 176 196**
Net charge	29 783 276	26 035 950
Net write-offs	(26 453 503)	(5 338 531)
Balance at the end of the period	**40 203 388**	**36 873 615**

As at 31 December 2016, net interest accrued on overdue and impaired loans amounts to RUB 1 696 126 thousand (31 December 2015: RUB 803 123 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to corporate clients		
- Not past due	527 212 151	456 119 669
- Not past due but impaired	30 214 693	21 794 590
- Overdue less than 31 days	533 897	5 906 042
- Overdue 31-60 days	162 579	3 180 256
- Overdue 61-90 days	97 557	213 323
- Overdue 91-180 days	212 118	7 965 233
- Overdue 181-360 days	2 946 619	14 148 922
- Overdue more than 360 days	4 788 518	877 728
Total gross loans to corporate clients	**566 168 132**	**510 205 763**
Impairment allowance	**(32 698 086)**	**(27 782 541)**
Total net loans to corporate clients	**533 470 046**	**482 423 222**

As at 31 December 2016, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 31 December 2016 would decrease/increase by RUB 10 669 401 thousand (31 December 2015: RUB 9 648 464 thousand).

The following table represents information about concentration of loans to corporate clients as at 31 December 2016 and 31 December 2015:

	31 December 2016		31 December 2015	
	RUB'000	**% of total loan portfolio**	**RUB'000**	**% of total loan portfolio**
Top 5 clients	102 463 360	15.4	89 083 321	14.1
Top 10 clients	184 056 827	27.6	164 471 465	26.1
Top 20 clients	290 311 054	43.5	258 572 251	41.0

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB 000	**31 December 2015 RUB 000**
Real estate and other property	90 255 992	82 071 384
Securities	78 106 343	83 371 235
Equipment and motor vehicles	33 036 109	14 548 057
Goods in turnover	16 379 552	28 178 103
Claims for contract receivables	9 826 576	3 105 425
Guaranteed deposits	4 992 194	4 992 040
Bank's own debt securities	1 116 314	8 471 000
Corporate guarantees and no collateral	299 756 966	257 685 978
	533 470 046	**482 423 222**

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 3 205 440 thousand higher without any collateral as at 31 December 2016 (31 December 2015: RUB 8 901 305 thousand).

Collateral obtained

During the year ended 31 December 2016, the Group obtained certain assets the carrying amount of which as at 31 December 2016 was RUB 114 522 thousand by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2015: RUB 238 415 thousand). The Group's policy is to sell these assets as soon as it is practicable

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	**27 782 541**	**8 366 428**
Net charge	22 578 515	20 539 441
Net write-offs	(17 662 970)	(1 123 328)
Balance at the end of the period	**32 698 086**	**27 782 541**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	1 093 644	21 602 763	3 511 455	63 803 950	90 011 812
- Overdue less than 31 days	15 566	182 279	-	1 125 315	1 323 160
- Overdue 31-60 days	8 169	44 246	24 563	970 411	1 047 389
- Overdue 61-90 days	8 885	54 128	20 460	782 866	866 339
- Overdue 91-180 days	9 361	175 771	54 052	1 092 464	1 331 648
- Overdue 181-360 days	32 615	414 973	100 834	2 717 358	3 265 780
- Overdue more than 360 days	14 477	1 387 206	71 253	1 251 252	2 724 188
Gross loans	**1 182 717**	**23 861 366**	**3 782 617**	**71 743 616**	**100 570 316**
Impairment allowance	**(54 367)**	**(1 126 871)**	**(238 620)**	**(6 085 444)**	**(7 505 302)**
Net loans	**1 128 350**	**22 734 495**	**3 543 997**	**65 658 172**	**93 065 014**

The following table provides information on the credit quality of loans to individuals as at 31 December 2015:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	3 138 330	18 746 326	3 439 798	80 899 367	106 223 821
- Overdue less than 31 days	23 724	221 695	98	1 247 395	1 492 912
- Overdue 31-60 days	9 525	78 073	39 944	1 048 698	1 176 240
- Overdue 61-90 days	9 985	125 636	33 930	1 223 862	1 393 413
- Overdue 91-180 days	33 199	1 085 725	122 832	1 675 210	2 916 966
- Overdue 181-360 days	57 814	461 521	331 872	3 205 722	4 056 929
- Overdue more than 360 days	34 579	840 456	172 801	1 425 000	2 472 836
Gross loans	**3 307 156**	**21 559 432**	**4 141 275**	**90 725 254**	**119 733 117**
Impairment allowance	**(113 863)**	**(902 046)**	**(545 475)**	**(7 529 690)**	**(9 091 074)**
Net loans	**3 193 293**	**20 657 386**	**3 595 800**	**83 195 564**	**110 642 043**

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 31 December 2016 would increase/decrease by RUB 2 791 950 thousand (31 December 2015: RUB 3 319 261 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2016, impaired mortgage loans in the gross amount of RUB 2 258 603 thousand are secured by collateral with a fair value of RUB 1 830 426 thousand (31 December 2015: RUB 2 813 106 thousand and RUB 2 065 408 thousand, respectively).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2016 are as follows:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	**113 863**	**902 046**	**545 475**	**7 529 690**	**9 091 074**
Net charge	107	801 451	237 268	6 165 935	7 204 761
Net write-offs	(59 603)	(576 626)	(544 123)	(7 610 181)	(8 790 533)
Balance at the end of the period	**54 367**	**1 126 871**	**238 620**	**6 085 444**	**7 505 302**

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

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	**120 461**	**305 563**	**618 437**	**6 765 307**	**7 809 768**
Net charge	155 504	596 483	217 876	4 526 646	5 496 509
Net write-offs	(162 102)	-	(290 838)	(3 762 263)	(4 215 203)
Balance at the end of the period	**113 863**	**902 046**	**545 475**	**7 529 690**	**9 091 074**

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to individuals	100 570 316	119 733 117
Oil and industrial chemicals	101 344 835	95 427 482
Food and farm products	72 254 572	63 578 011
Property rental	62 505 024	30 297 150
Financial	59 202 852	46 866 680
Automotive, motorcycles and spare parts	49 693 338	42 089 711
Residential and commercial construction and development	45 748 805	38 573 473
Services	44 746 915	61 159 187
Metallurgical	39 913 698	39 150 165

	31 December 2016 RUB'000	31 December 2015 RUB'000
Industrial and infrastructure construction	21 245 623	24 808 966
Pharmaceutical and medical products	20 145 240	12 742 011
Industrial equipment and machinery	14 146 627	6 098 559
Construction and decorative materials, furniture	11 918 426	10 017 245
Clothing, shoes, textiles and sporting goods	8 598 660	10 503 336
Consumer electronics, appliances and computers	8 250 900	10 325 576
Paper, stationery and packaging products	2 628 336	2 916 325
Government and municipal bodies	1 422 229	-
Consumer chemicals, perfumes and hygiene products	917 134	2 689 256
Equipment leasing	318 247	32 812
Gardening and pet products	153 157	329 515
Products for home, gifts, jewelry and business accessories	67 099	184 218
Books, video, print and copy	37 502	323 184
Telecommunications	35 431	4 023 846
Electric utility	-	2 002 940
Other	873 482	6 066 115
	666 738 448	**629 938 880**
Impairment allowance	(40 203 388)	(36 873 615)
	626 535 060	**593 065 265**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Gross investment in finance lease	9 124 047	9 316 528
Unearned interest income	(2 053 056)	(1 951 150)
Net investment in finance lease before allowance	**7 070 991**	**7 365 378**
Impairment allowance	(274 941)	(244 660)
Net investment in finance lease	**6 796 050**	**7 120 718**

The contractual maturity of the net investment in leases is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Less than 1 year	3 207 905	3 204 365
Between 1 and 5 years	3 375 046	3 430 071
More than 5 years	21 325	5 682
Overdue	191 774	480 600
	6 796 050	**7 120 718**

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2016 is presented in the table below:

RUB'000	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2016	**-**	**5 280 058**	**725 593**	**482 693**	**2 244 739**	**51 650**	**8 784 733**
Additions	-	71 557	179 955	259 741	426 221	47 841	985 315
Disposals	-	(62 311)	(24 560)	(44 844)	(69 368)	-	(201 083)
Transfers	16 587 345	-	-	8 462	28 792	(37 254)	16 587 345
Revaluation	-	(166 431)	-	-	-	-	(166 431)
Impairment	-	-	(525)	-	(4 200)	-	(4 725)
Elimination of accumulated depreciation on revalued buildings	-	(116 455)	-	-	-	-	(116 455)
Currency exchange differences on translation	(1 608 955)	-	-	-	-	-	(1 608 955)
At 31 December 2016	**14 978 390**	**5 006 418**	**880 463**	**706 052**	**2 626 184**	**62 237**	**24 259 744**
Accumulated depreciation							
At 1 January 2016	**-**	**-**	**339 826**	**237 672**	**1 202 817**	**-**	**1 780 315**
Depreciation charge	749 357	116 455	165 995	112 555	336 983	-	1 481 345
Disposals	-	-	(20 837)	(44 772)	(56 073)	-	(121 682)
Elimination of accumulated depreciation on revalued buildings	-	(116 455)	-	-	-	-	(116 455)
Currency exchange differences on translation	(41 837)	-	-	-	-	-	(41 837)
At 31 December 2016	**707 520**	**-**	**484 984**	**305 455**	**1 483 727**	**-**	**2 981 686**
Carrying value							
At 31 December 2016	**14 270 870**	**5 006 418**	**395 479**	**400 597**	**1 142 457**	**62 237**	**21 278 058**

The movement in property and equipment for the year ended 31 December 2015 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2015	**6 191 074**	**487 116**	**329 088**	**1 928 814**	**70 338**	**9 006 430**
Acquisition of a subsidiary company	85 699	216 658	10 364	110 352	-	423 073
Additions	3 934	37 410	173 564	224 720	40 883	480 511
Disposals	-	(15 591)	(30 323)	(78 718)	-	(124 632)
Transfers	-	-	-	59 571	(59 571)	-
Revaluation	(657 112)	-	-	-	-	(657 112)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	**5 280 058**	**725 593**	**482 693**	**2 244 739**	**51 650**	**8 784 733**
Accumulated depreciation						
At 1 January 2015	**212 393**	**244 178**	**193 266**	**957 253**	**-**	**1 607 090**
Depreciation charge	131 144	108 509	74 621	304 021	-	618 295
Disposals	-	(12 861)	(30 215)	(58 457)	-	(101 533)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	**-**	**339 826**	**237 672**	**1 202 817**	**-**	**1 780 315**
Carrying value						
At 31 December 2015	**5 280 058**	**385 767**	**245 021**	**1 041 922**	**51 650**	**7 004 418**

Revalued assets

The buildings were independently valued at 31 December 2016. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 10.0% to 12.3%;
- buildings maintenance and general administrative expenses are estimated in the range from 17.9% to 19.9% of effective gross rent income;
- capitalisation rate in the range from 10.0% to 12.1% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 12.0% to 13.8% implicit in advertized market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2016 would be RUB 500 642 thousand (31 December 2015: RUB 528 006 thousand) higher/lower.

The carrying value of buildings as of 31 December 2016, if the buildings would not have been revalued, would be RUB 4 040 171 thousand (31 December 2015: RUB 4 117 568 thousand).

15 Other assets

	31 December 2016 RUB`000	31 December 2015 RUB`000
Receivables and settlements with suppliers	951 577	896 189
Receivables for commissions	752 329	777 340
Receivables under cession agreements	579 234	900 282
Impairment allowance	(437 513)	(139 896)
Total other financial assets	**1 845 627**	**2 433 915**
Real estate held for sale	2 586 107	3 804 815
Investment property	739 000	-
Intangible assets	313 610	354 719
Deferred expenses	137 845	114 479
Property held for further leasing	-	18 002 027
Current tax assets	101 168	1 759 906
Other	587 549	895 887
Impairment allowance	(60 992)	(21 267)
Total other non-financial assets	**4 404 287**	**24 910 566**
Total other assets	**6 249 914**	**27 344 481**

To avoid losses on the documentary instruments the Bank entered into ownership of aircraft. As at 31 December 2015 these aircraft were included in property held for further leasing. During 2016 these aircraft were transfered to property and equipment and used for operating leasing.

Included in real estate held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB’000	2015 RUB’000
Balance at the beginning of the period	**161 163**	**189 549**
Net charge (recovery)	507 127	(889)
Write-offs	(169 785)	(27 497)
Balance at the end of the period	**498 505**	**161 163**

16 Deposits by the Central Bank of the Russian Federation

	31 December 2016 RUB’000	31 December 2015 RUB’000
Payables under repurchase agreements or collateralized loans	247 169 523	4 044 647
Total deposits by the Central Bank of the Russian Federation	**247 169 523**	**4 044 647**

As at 31 December 2016, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 285 678 116 thousand.

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of the Russian Federation is presented in note 29.

17 Deposits by credit and other financial institutions

	31 December 2016 RUB'000	31 December 2015 RUB'000
Payables under repurchase agreements or collateralized loans	247 011 266	22 602 592
Term deposits	129 999 488	52 523 973
Current accounts	3 991 134	8 043 136
Subordinated debt	622 577	1 490 212
Total deposits by credit and other financial institutions	**381 624 465**	**84 659 913**

Subordinated debt represents loans denominated in USD with an effective interest rate of 7.7% (31 December 2015: 7.0%) and maturity in 2017 (31 December 2015: in 2017).

As at 31 December 2016, the Group has two counterparties (31 December 2015: four counterparties) whose deposits balances exceed 10% of deposits by credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 329 968 267 thousand (31 December 2015: RUB 60 599 915 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 284 634 909 thousand.

Information about the currency and maturity and effective interest rates on deposits by credit and other financial institutions is presented in note 29.

18 Deposits by customers

	31 December 2016 RUB'000	31 December 2015 RUB'000
Corporate customers		
Term and demand deposits	379 563 209	645 758 476
Current accounts	41 300 435	25 832 712
Subordinated debt	18 272 593	21 885 357
Term notes	1 705 925	4 286 679
Total corporate customers	**440 842 162**	**697 763 224**
Individuals		
Term and demand deposits	235 353 371	189 047 958
Current accounts	13 300 187	11 881 049
Total individuals	**248 653 558**	**200 929 007**
Total deposits by customers	**689 495 720**	**898 692 231**

As at 31 December 2016, the Group has one counterparty (31 December 2015: two counterparties), whose demand and term deposits exceed 10% of total customer accounts. The gross value of these balances as at 31 December 2016 is RUB 243 279 657 thousand (31 December 2015: RUB 493 626 596 thousand).

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2016 RUB'000	31 December 2015 RUB'000
Promissory notes issued	1 145 644	1 044 559
Total promissory notes issued	**1 145 644**	**1 044 559**
Bonds	95 251 836	73 901 654
Subordinated bonds	40 805 936	46 208 552
Total bonds issued	**136 057 772**	**120 110 206**
Total debt securities issued	**137 203 416**	**121 154 765**

The table below provides a summary of bonds issued as at 31 December 2016 and 31 December 2015:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate	
		31 December 2016 RUB'000	31 December 2015 RUB'000				
USD denominated Eurobonds issue	500 000	31 278 323	37 565 990	01.02.2013	01.02.2018	7.70%	*
USD denominated subordinated Eurobonds issue	500 000	30 639 306	36 049 080	13.05.2013	13.11.2018	8.70%	*
USD denominated Eurobonds issue	500 000	30 477 791	-	07.11.2016	07.11.2021	5.88%	*
RUB denominated bonds issue BO-11	12 465 515	13 033 492	15 038 290	10.07.2014	10.07.2019	12.00%	
RUB denominated bonds issue BO-06	4 999 993	5 109 561	3 722 125	24.10.2013	24.10.2018	12.25%	
RUB denominated subordinated Eurobonds issue	5 000 000	5 056 228	5 053 367	26.11.2014	26.05.2025	16.50%	*
RUB denominated bonds issue BO-10	3 912 626	4 113 360	5 263 722	10.07.2014	10.07.2019	11.00%	
Mortgage-backed bonds	3 328 384	3 355 211	-	02.12.2016	07.12.2043	10.15%	*
RUB denominated subordinated bonds issue 11	3 000 000	3 023 822	3 020 864	11.12.2012	05.06.2018	12.25%	*
RUB denominated bonds issue BO-07	2 236 843	2 177 866	6 939 068	30.10.2013	30.10.2018	10.30%	
RUB denominated bonds issue BO-09	2 117 831	2 174 692	3 100 049	25.03.2015	25.03.2020	11.55%	
RUB denominated subordinated bonds issue 12	2 000 000	2 086 580	2 085 240	27.02.2013	22.08.2018	12.25%	*
RUB denominated bonds issue 01	3 000 000	2 044 021	-	27.10.2016	21.10.2021	12.50%	
Mortgage-backed bonds	3 702 139	1 487 519	2 272 411	16.06.2014	07.06.2039	10.65%	*
		136 057 772	**120 110 206**				

** Fixed coupon rate*

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 cember 2016 RUB'000	31 December 2015 RUB'000
Derivative financial instruments	1 081 474	782 834
Payables to suppliers and other creditors	856 793	510 907
Cash collection payables	376 822	182 234
Other liabilities	651 259	218 179
Total other financial liabilities	**2 966 348**	**1 694 154**
Deferred income	2 980 852	871 772
Allowance for credit related commitments	1 654 096	1 397 344
Taxes payable	389 077	228 063
Payable to employees	377 011	360 966
Payables to Deposit Insurance Agency	258 864	189 554
Current tax liabilities	22 910	-
Other liabilities	235 905	188 205
Total other non-financial liabilities	**5 918 715**	**3 235 904**
Total other liabilities	**8 885 063**	**4 930 058**

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2016 comprises 23 879 709 866 shares (31 December 2015: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2016 the Bank has 12 396 448 142 authorized but unissued ordinary shares with an aggregate nominal value of RUB 12 396 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

In 2015 the Bank issued 8 139 683 500 additional ordinary shares with a par value of 1 RUB per share under initial and secondary public offerings. The Bank raised RUB 29 690 654 thousand during these offerings.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

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

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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

	31 December 2016 RUB'000	**31 December 2015 RUB'000**
Guarantees and letters of credit	101 611 603	65 895 955
Undrawn loan commitments	26 676 975	6 449 869
Other contingent liabilities	322 368	137 258
	128 610 946	**72 483 082**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2016 RUB'000	**31 December 2015 RUB'000**
Less than 1 year	821 483	887 475
Between 1 and 5 years	1 432 635	1 000 944
More than 5 years	48 654	32 120
	2 302 772	**1 920 539**

During the year ended 31 December 2016 RUB 1 120 972 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2015: RUB 816 209 thousand).

Leases as lessor

Assets leased out under operating leases are represented by aircraft.

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2016 RUB'000	**31 December 2015 RUB'000**
Less than 1 year	1 615 900	-
Between 1 and 5 years	6 463 599	-
More than 5 years	2 144 229	-
	10 223 728	**-**

The present value of minimum lease payments under these arrangements as at 31 December 2016 is RUB 8 653 691 thousand.

As at 31 December 2016, there was only one lessee under operating lease agreements.

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group 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.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities **during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period.** Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

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

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

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Amount RUB'000	**Average effective interest rate**	**Amount RUB'000**	**Average effective interest rate**
Loans to customers				
Under control of principal beneficiary	18 318 205	14.2%	991 190	17.4%
Management	70 248	16.4%	114 800	16.4%
Total loans to customers	**18 388 453**		**1 105 990**	
Deposits by customers				
Term deposits by customers				
Parent company	977 270	10.1%	14 207	10.0%
Principal beneficiary	827 366	9.9%	282 176	13.2%
Under control of principal beneficiary	240 795	10.0%	266 381	10.8%
Management	145 264	5.0%	191 100	7.8%
Total term deposits by customers	**2 190 695**		**753 864**	
Current accounts by customers				
Under control of principal beneficiary	68 063		210 502	
Management	64 115		8 485	
Principal beneficiary	3 139		355	
Parent company	477		41 817	
Total current accounts by customers	**135 794**		**261 159**	
Total deposits by customers	**2 326 489**		**1 015 023**	
Guarantees issued				
Under control of principal beneficiary	342 633		4 287 052	
Total guarantees	**342 633**		**4 287 052**	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2016 and 2015 in relation to transactions with related parties are as follows:

	2016 RUB'000	**2015 RUB'000**
Interest income on loans to customers		
Under control of principal beneficiary	778 416	118 208
Parent company	20 309	-
Management	9 415	9 355
Principal beneficiary	-	193 411
Total interest income	**808 140**	**320 974**
Interest expense on deposits by customers		
Under control of principal beneficiary	250 732	23 053
Parent company	67 411	76 808
Principal beneficiary	20 270	24 998
Management	12 837	15 069
Total interest expense	**351 250**	**139 928**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2016 and 31 December 2015 (refer to note 6) is as follows:

	2016 RUB'000	**2015 RUB'000**
Members of the Management Board	101 785	86 631
Members of the Supervisory Board	77 721	74 995
	179 506	**161 626**

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Till 31 December 2015 the Group calculated amount of capital in accordance with Direction of the CBR dated 25 October 2013 No. 3090-U *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups* and since 1 January 2016 – in accordance with Provision of the CBR dated 3 December 2015 No. 509-P *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups.* As at 31 December 2016, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly. As at 31 December 2015, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 5.0%, 6.0% and 10.0%, accordingly.

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

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The accounting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and the Group's internal policy this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2016 and 31 December 2015.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS consolidated financial statements as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016 RUB'000	**31 December 2015 RUB'000**
Tier 1 capital		
Share capital and additional paid-in capital	59 789 103	59 789 103
Retained earnings	42 433 730	31 560 113
Intangible assets	(313 610)	(354 719)
Core tier 1	**101 909 223**	**90 994 497**
Additional capital	-	-
Total tier 1 capital	**101 909 223**	**90 994 497**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Tier 2 capital		
Revaluation surplus for buildings	687 505	769 176
Revaluation reserve for securities available-for-sale	450 796	220 070
Subordinated loans		
Subordinated loans	38 464 464	42 291 275
Subordinated bonds	18 294 420	28 277 204
Total tier 2 capital	**57 897 185**	**71 557 725**
Total capital	**159 806 408**	**162 552 222**
Risk-weighted assets		
Banking book	869 091 849	749 365 459
Trading book	138 702 951	179 465 196
Operational risk	77 593 072	57 449 960
Total risk weighted assets	**1 085 387 872**	**986 280 615**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	**14.7**	**16.5**
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	**9.4**	**9.2**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	**9.4**	**9.2**

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 13 274 586 thousand (31 December 2015: RUB 23 398 755 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

In June 2015 the State Corporation "Deposit Insurance Agency" provided a subordinated loan of RUB 20 231 000 thousand to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received and a subordinated obligation to return them to the lender in the consolidated interim condensed statement of financial position of the Group. The obligation to return securities received to the State Corporation "Deposit Insurance Agency" is subordinated to other ordinary obligations of the Group, and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

28 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing , letters of credit, guarantees, corporate deposit taking, settlements and money transfers, currency conversion
- Retail banking comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers, currency conversion for individuals
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2016 RUB’000	31 December 2015 RUB’000
ASSETS		
Corporate business	552 399 939	487 032 141
Retail banking	95 692 900	111 969 235
Treasury	887 855 792	557 505 468
Cash operations	18 762 889	17 344 885
Unallocated assets	13 257 102	34 348 899
Total assets	**1 567 968 622**	**1 208 200 628**
LIABILITIES		
Corporate business	440 842 162	697 763 224
Retail banking	248 653 558	200 929 007
Treasury	765 997 404	209 859 325
Unallocated liabilities	9 074 923	7 310 610
Total liabilities	**1 464 568 047**	**1 115 862 166**

Segment information for the main reportable segments for the year ended 31 December 2016 is set below:

RUB'000	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	63 181 865	18 636 599	31 579 979	-	-	113 398 443
Fee and commission income	3 729 114	5 202 643	218 358	4 243 631	-	13 393 746
Net gain on securities	-	-	1 442 541	-	-	1 442 541
Net foreign exchange gains	997 324	118 908	4 933 987	14 932	-	6 065 151
Other operating income, net	1 097 253	(88 079)	(255 734)	(50 137)	-	703 303
Revenue (expenses) from other segments	5 118 183	9 275 416	(14 711 429)	317 830	-	-
Revenue	**74 123 739**	**33 145 487**	**23 207 702**	**4 526 256**	**-**	**135 003 184**
Impairment losses on loans	(22 578 515)	(7 204 761)	-	-	-	(29 783 276)
Interest expense	(35 856 001)	(18 072 108)	(19 171 009)	-	-	(73 099 118)
Fee and commission expense	(1 926 978)	(167 491)	(120 665)	(31 601)	-	(2 246 735)
General administrative and other expenses	(4 975 280)	(4 812 601)	(421 219)	(1 888 893)	(4 041 526)	(16 139 519)
Expense	**(65 336 774)**	**(30 256 961)**	**(19 712 893)**	**(1 920 494)**	**(4 041 526)**	**(121 268 648)**
Segment result	**8 786 965**	**2 888 526**	**3 494 809**	**2 605 762**	**(4 041 526)**	**13 734 536**

Segment information for the main reportable segments for the year ended 31 December 2015 is set below:

RUB'000	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	48 791 721	21 501 052	18 917 737	-	-	89 210 510
Fee and commission income	2 447 074	4 274 211	178 092	2 469 733	-	9 369 110
Net gain on securities	-	-	800 663	-	-	800 663
Net foreign exchange gain	1 889 144	192 235	661 399	-	-	2 742 778
Revenue (expenses) from other segments	1 826 444	(976 371)	(933 718)	83 645	-	-
Revenue	**54 954 383**	**24 991 127**	**19 624 173**	**2 553 378**	**-**	**102 123 061**
Impairment losses on loans	(20 539 441)	(5 496 509)	-	-	-	(26 035 950)
Interest expense	(24 116 299)	(20 078 998)	(15 726 739)	-	-	(59 922 036)
Fee and commission expense	(1 437 475)	(183 726)	(96 567)	-	-	(1 717 768)
Other operating loss, net	(779 015)	115 762	113 892	-	-	(549 361)
General administrative and other expenses	(3 226 947)	(4 232 072)	(203 869)	(498 112)	(3 792 402)	(11 953 402)
Expense	**(50 099 177)**	**(29 875 543)**	**(15 913 283)**	**(498 112)**	**(3 792 402)**	**(100 178 517)**
Segment result	**4 855 206**	**(4 884 416)**	**3 710 890**	**2 055 266**	**(3 792 402)**	**1 944 544**

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2016, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar
- Mikhail E. Kuznetsov
- Marina M. Nastashkina
- Genadi Lewinski
- Andreas Klingen
- Ilkka S. Salonen.

During the year ended 31 December 2016 the following changes occurred in the composition of the Supervisory Board:

- Nicholas D. Haag – resigned
- Bernard D. Sucher – resigned
- Alexey A. Stepanenko – resigned
- Andrey A. Kryukov – resigned
- Marina M. Nastashkina – new member
- Genadi Lewinski – new member
- Andreas Klingen – new member
- Ilkka S. Salonen – new member.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2016, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Dmitry A. Eremin – First Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Daria A. Galkina – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Andrey A. Kryukov – Deputy Chairman of the Management Board
- Yury A. Ubeev – Senior Vice President
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board.

During the year ended 31 December 2016 the following changes occurred in the composition of the Management Board:

- Alexey A. Stepanenko – new member
- Andrey A. Kryukov – new member
- Elena V. Shved – new member
- Anton O. Viritchev – new member.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

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

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

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

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulation of the Central Bank of Russian Federation dated 16 December 2003 No. 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

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

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

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

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

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity,* Direction of the CBR dated 1 April 2014 No. 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*, establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

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

Risk management policies and procedures

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

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognized and unrecognized exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016 RUB'000	**31 December 2015** RUB'000
ASSETS		
Cash and cash equivalents excluding cash on hand	354 563 626	120 669 701
Obligatory reserves with the Central Bank of the Russian Federation	7 286 909	5 936 111
Deposits in credit and other financial institutions	403 480 148	277 295 869

	31 December 2016 RUB'000	31 December 2015 RUB'000
Financial instruments at fair value through profit or loss	83 907 588	72 136 989
Available-for-sale securities	45 791 826	87 291 642
Loans to customers	626 535 060	593 065 265
Other financial assets	1 845 627	2 433 915
Total maximum exposure to credit risk on statement of financial position	**1 523 410 784**	**1 158 829 492**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2016 and 31 December 2015, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2016 and 31 December 2015.

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

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

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

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of Direction of the CBR dated 25 October 2013 No. 3090-U *Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups* and may differ from the Group structure determined in accordance with IFRS requir ements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2016 and 31 December 2015.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

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

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	**Cash collateral received RUB'000**	**Net amount RUB'000**
Reverse sale and repurchase	626 206 727	-	626 206 727	626 206 727	-	-
Total financial assets	**626 206 727**	-	**626 206 727**	**626 206 727**	-	-
Sale and repurchase	494 180 789	-	494 180 789	494 180 789	-	-
Total financial liabilities	**494 180 789**	-	**494 180 789**	**494 180 789**	-	-

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

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	**Cash collateral received RUB'000**	**Net amount RUB'000**
Reverse sale and repurchase	289 550 623	-	289 550 623	289 550 623	-	-
Total financial assets	**289 550 623**	**-**	**289 550 623**	**289 550 623**	**-**	**-**
Sale and repurchase	26 647 239	-	26 647 239	26 647 239	-	-
Total financial liabilities	**26 647 239**	**-**	**26 647 239**	**26 647 239**	**-**	**-**

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortized cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase agreements	228 615 945	Cash and cash equivalents	373 326 515	144 710 570	9
	397 590 782	Deposits in credit and other financial institutions	403 480 148	5 889 366	10
Sale and repurchase agreements	247 169 523	Deposits by the Central Bank of the Russian Federation	247 169 523	-	16
	247 011 266	Deposits by credit and other financial institutions	381 624 465	134 613 199	17

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

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase agreements	50 735 211	Cash and cash equivalents	138 014 586	87 279 375	9
	238 815 412	Deposits in credit and other financial institutions	277 295 869	38 480 457	10
Sale and repurchase agreements	4 044 647	Deposits by the Central Bank of the Russian Federation	4 044 647	-	16
	22 602 592	Deposits by credit and other financial institutions	84 659 913	62 057 321	17

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Division on important developments and issues. The Head of the Internal Control Division reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2016 and 31 December 2015.

The following tables as at 31 December 2016 and 31 December 2015 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Bonds issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2016 RUB'000	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**	**Carrying value**
LIABILITIES						
Deposits by the CBR	247 639 435	-	-	-	**247 639 435**	**247 169 523**
Deposits by credit and other financial institutions	184 375 220	189 551 713	4 383 728	7 967 251	**386 277 912**	**381 624 465**
Deposits by customers	253 434 260	190 485 582	206 625 434	67 406 065	**717 951 341**	**689 495 720**
Debt securities issued	-	10 904 588	18 039 079	142 493 923	**171 437 590**	**137 203 416**
Other financial liabilities	588 700	1 713 311	660 980	3 357	**2 966 348**	**2 966 348**
Total contractual future payments for financial obligations	**686 037 615**	**392 655 194**	**229 709 221**	**217 870 596**	**1 526 272 626**	**1 458 459 472**
Guarantees and letters of credit	101 611 603	-	-	-	**101 611 603**	
Credit related commitments	26 676 975	-	-	-	**26 676 975**	

31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	-	4 061 566	-	-	**4 061 566**	**4 044 647**
Deposits by credit and other financial institutions	29 969 117	44 331 293	3 931 759	8 159 293	**86 391 462**	**84 659 913**
Deposits by customers	139 780 249	322 114 330	385 766 303	86 563 741	**934 224 623**	**898 692 231**
Debt securities issued	6 647 413	8 613 235	17 139 405	118 065 559	**150 465 612**	**121 154 765**
Other financial liabilities	1 329 314	264 641	91 277	8 922	**1 694 154**	**1 694 154**
Total contractual future payments for financial obligations	**177 726 093**	**379 385 065**	**406 928 744**	**212 797 515**	**1 176 837 417**	**1 110 245 710**
Guarantees and letters of credit	65 895 955	-	-	-	**65 895 955**	
Credit related commitments	6 449 869	-	-	-	**6 449 869**	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Demand and less than 1 month	24 513 148	26 596 672
From 1 to 6 months	123 260 928	107 909 005
From 6 to 12 months	73 020 538	37 204 483
More than 1 year	14 558 757	17 337 798
	235 353 371	**189 047 958**

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2016 and 31 December 2015 is shown in the tables below:

31 December 2016 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	-	7 284 253	13 033 492	73 319 257	37 578 039	4 842 731	**136 057 772**

31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	15 038 290	3 100 049	12 202 791	82 443 298	5 053 367	2 272 411	**120 110 206**

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2016 and 2015 the contractual maturities of all instruments included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

2016 RUB'000	**Less than month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial instruments at fair value through profit or loss	17 449 476	20 534 690	6 958 668	20 721 228	13 514 324	4 729 202	947	**83 908 535**
Available-for-sale securities	1 478 297	6 587 856	9 656 684	19 275 196	6 426 009	2 367 784	111 657	**45 903 483**

2015 RUB'000	**Less than month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial instruments at fair value through profit or loss	2 757 203	30 519 203	19 300 715	17 093 588	1 295 746	1 170 534	-	**72 136 989**
Available-for-sale securities	66 538	9 308 366	17 016 804	54 241 816	3 817 855	2 840 263	111 267	**87 402 909**

31 December 2016 RUB'000	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 9 months**	**9 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS												
Cash and cash equivalents	373 326 515	-	-	-	-	-	-	-	-	-	-	**373 326 515**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	7 286 909	-	**7 286 909**
Deposits in credit and other financial institutions	-	275 109 628	162 306	40 773 459	87 434 755	-	-	-	-	-	-	**403 480 148**
Financial instruments at fair value through profit or loss	82 110 854	1 662 674	135 007	-	-	-	-	-	-	-	-	**83 908 535**
Available-for-sale securities	32 801 287	119 763	80 441	-	-	7 397 601	1 441 113	1 825 707	2 125 914	111 657	-	**45 903 483**
Loans to customers	85 362 187	42 819 338	86 460 956	42 923 816	39 302 383	63 243 617	72 275 005	118 675 605	69 160 590	-	6 311 563	**626 535 060**
Property and equipment	-	-	-	-	-	-	-	-	-	21 278 058	-	**21 278 058**
Other assets	459 032	455 145	598 055	342 755	236 402	48 836	-	297 916	-	3 811 773	-	**6 249 914**
	574 059 875	**320 166 548**	**87 436 765**	**84 040 030**	**126 973 540**	**70 690 054**	**73 716 118**	**120 799 228**	**71 286 504**	**32 488 397**	**6 311 563**	**1 567 968 622**
LIABILITIES												
Deposits by the CBR	247 169 523	-	-	-	-	-	-	-	-	-	-	**247 169 523**
Deposits by credit and other financial institutions	183 914 725	186 529 354	254 512	2 329 459	1 944 137	4 296 754	24 197	1 273 098	1 058 229	-	-	**381 624 465**
Deposits by customers	252 942 466	110 591 381	75 603 443	42 654 571	155 775 034	17 236 635	12 184 812	347 973	22 159 405	-	-	**689 495 720**
Debt securities issued	-	1 145 644	-	-	-	74 315 458	17 146 853	34 696 503	9 898 958	-	-	**137 203 416**
Deferred tax liability	-	-	-	-	-	-	-	-	-	189 860	-	**189 860**
Other liabilities	965 017	2 422 519	1 066 442	812 351	812 351	253 567	250 209	250 347	-	2 052 260	-	**8 885 063**
	684 991 731	**300 688 898**	**76 924 397**	**45 796 381**	**158 531 522**	**96 102 414**	**29 606 071**	**36 567 921**	**33 116 592**	**2 242 120**	**-**	**1 464 568 047**
Net position	**(110 931 856)**	**19 477 650**	**10 512 368**	**38 243 649**	**(31 557 982)**	**(25 412 360)**	**44 110 047**	**84 231 307**	**38 169 912**	**30 246 277**	**6 311 563**	**103 400 575**
Cumulative position	**(110 931 856)**	**(91 454 206)**	**(80 941 838)**	**(42 698 189)**	**(74 256 171)**	**(99 668 531)**	**(55 558 484)**	**28 672 823**	**66 842 735**	**97 089 012**	**103 400 575**	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions. After the reporting date the majority of deposits by customers with maturity less than 1 month as at 31 December 2016 were prolonged and the Group attracted new funding from corporate clients, which resulted in positive cumulative liquidity position in the categories from less than 1 month to 6 to 9 months.

31 December 2015 RUB'000	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 9 months**	**9 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS												
Cash and cash equivalents	138 014 586	-	-	-	-	-	-	-	-	-	-	**138 014 586**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	5 936 111	-	**5 936 111**
Deposits in credit and other financial institutions	-	70 956 455	101 342 473	5 272 120	1 416 268	98 308 553	-	-	-	-	-	**277 295 869**
Financial instruments at fair value through profit or loss	61 997 153	2 864 799	3 876 735	184 555	1 196 705	528 642	1 488 400	-	-	-	-	**72 136 989**
Available-for-sale securities	60 107 726	2 115 753	5 066 642	7 061 565	7 670 898	258 658	4 847 710	36 453	126 237	111 267	-	**87 402 909**
Loans to customers	71 062 052	89 688 271	63 333 598	48 036 367	37 625 142	38 711 193	57 222 511	77 652 412	84 070 793	-	25 662 926	**593 065 265**
Property and equipment	-	-	-	-	-	-	-	-	-	7 004 418	-	**7 004 418**
Other assets	716 103	590 784	1 082 870	642 105	236 377	131 052	65 526	-	-	23 879 664	-	**27 344 481**
	331 897 620	**166 216 062**	**174 702 318**	**61 196 712**	**48 145 390**	**137 938 098**	**63 624 147**	**77 688 865**	**84 197 030**	**36 931 460**	**25 662 926**	**1 208 200 628**
LIABILITIES												
Deposits by the CBR	-	4 044 647	-	-	-	-	-	-	-	-	-	**4 044 647**
Deposits by credit and other financial institutions	29 889 828	2 000 736	42 042 747	3 266 642	595 522	3 542 951	723 814	1 146 699	1 450 974	-	-	**84 659 913**
Deposits by customers	139 132 835	203 651 279	111 245 333	252 569 174	122 668 329	31 874 538	11 145 095	468 449	25 937 199	-	-	**898 692 231**
Debt securities issued	-	1 044 559	-	-	-	-	89 382 368	23 402 061	7 325 777	-	-	**121 154 765**
Deferred tax liability	-	-	-	-	-	-	-	-	-	2 380 552	-	**2 380 552**
Other liabilities	1 671 314	641 734	242 944	202 876	195 829	41 258	56 993	64 848	53 951	1 758 311	-	**4 930 058**
	170 693 977	**211 382 955**	**153 531 024**	**256 038 692**	**123 459 680**	**35 458 747**	**101 308 270**	**25 082 057**	**34 767 901**	**4 138 863**	**-**	**1 115 862 166**
Net position	**161 203 643**	**(45 166 893)**	**21 171 294**	**(194 841 980)**	**(75 314 290)**	**102 479 351**	**(37 684 123)**	**52 606 808**	**49 429 129**	**32 792 597**	**25 662 926**	**92 338 462**
Cumulative position	**161 203 643**	**116 036 750**	**137 208 044**	**(57 633 936)**	**(132 948 226)**	**(30 468 875)**	**(68 152 998)**	**(15 546 190)**	**33 882 939**	**66 675 536**	**92 338 462**	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2016						
Interest-bearing assets	355 557 122	431 674 774	227 049 765	397 675 469	6 311 563	**1 418 268 693**
Interest-bearing liabilities	625 434 958	381 408 587	215 736 693	174 321 130	-	**1 396 901 368**
Net interest sensitivity gap as at 31 December 2016	**(269 877 836)**	**50 266 187**	**11 313 072**	**223 354 339**	**6 311 563**	**21 367 325**
31 December 2015						
Interest-bearing assets	147 306 327	365 148 366	128 667 417	442 361 375	25 662 926	**1 109 146 411**
Interest-bearing liabilities	138 270 323	367 129 350	391 302 458	166 058 795	-	**1 062 760 926**
Net interest sensitivity gap as at 31 December 2015	**9 036 004**	**(1 980 984)**	(262 635 041)	**276 302 580**	**25 662 926**	**46 385 485**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015 is as follows:

	2016		2015	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
200 bp parallel rise	(1 462 229)	(1 462 229)	951 996	951 996
200 bp parallel fall	1 462 229	1 462 229	(951 996)	(951 996)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2016		2015	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
200 bp parallel rise	(2 086 654)	(3 299 933)	(860 099)	(3 027 271)
200 bp parallel fall	2 086 654	3 299 933	860 099	3 027 271

Currency risk

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

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2016		2015	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
20% appreciation of USD against RUB	(430 919)	(430 919)	(2 275 867)	(2 275 867)
20% depreciation of USD against RUB	430 919	430 919	2 275 867	2 275 867

Equity price risk

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

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2016			2015		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	3.3%	11.8%	2.3%	3.3%	12.7%	6.5%
Deposits in credit and other financial institutions	3.7%	11.1%	4.7%	3.5%	12.9%	2.2%

	2016			**2015**		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Financial instruments at fair value through profit or loss						
– government and municipal bonds	4.4%	9.8%	-	-	11.7%	-
– corporate bonds	4.0%	9.5%	3.1%	3.9%	12.1%	-
Available-for-sale securities						
– corporate bonds	3.1%	10.3%	-	6.1%	10.2%	-
– promissory notes	-	-	-	4.7%	-	-
Loans to customers	6.3%	15.0%	6.5%	6.8%	16.6%	8.5%
Interest bearing liabilities						
Deposits by the CBR	3.1%	11.0%	-	1.7%	-	-
Deposits by credit and other financial institutions						
– term deposits	2.1%	10.4%	0.8%	4.1%	10.2%	1.5%
– subordinated debt	7.7%	-	-	7.0%	-	-
Term deposits by customers						
– term deposits	2.1%	9.7%	1.7%	2.4%	11.4%	4.1%
– subordinated debt	4.9%	-	-	4.9%	-	-
Debt securities issued	7.4%	12.2%	1.1%	8.2%	11.9%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2016 RUB'000	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	261 477 897	102 868 573	8 980 045	**373 326 515**
Obligatory reserves with the CBR	-	7 286 909	-	**7 286 909**
Deposits in credit and other financial institutions	267 558 605	132 133 498	3 788 045	**403 480 148**
Financial instruments at fair value through profit or loss	42 132 431	41 513 132	262 972	**83 908 535**
Available-for-sale securities	25 208 321	20 695 162	-	**45 903 483**
Loans to customers	146 122 665	468 413 222	11 999 173	**626 535 060**
Property and equipment	14 270 870	7 007 188	-	**21 278 058**
Other assets	271 294	5 927 841	50 779	**6 249 914**
	757 042 083	**785 845 525**	**25 081 014**	**1 567 968 622**

31 December 2016 **RUB'000**	**USD**	**RUB**	**Other currencies**	**Total**
LIABILITIES				
Deposits by the CBR	184 150 090	63 019 433	-	**247 169 523**
Deposits by credit and other financial institutions	90 319 051	283 679 947	7 625 467	**381 624 465**
Deposits by customers	251 021 126	425 730 655	12 743 939	**689 495 720**
Debt securities issued	92 395 419	43 662 353	1 145 644	**137 203 416**
Deferred tax liability	-	189 860	-	**189 860**
Other liabilities	1 627 872	7 204 409	52 782	**8 885 063**
	619 513 558	**823 486 657**	**21 567 832**	**1 464 568 047**
Net position before hedging	**137 528 525**	**(37 641 132)**	**3 513 182**	**103 400 575**
Derivative financial instruments	(140 221 771)	145 636 078	(5 414 307)	-
Net position	**(2 693 246)**	**107 994 946**	**(1 901 125)**	**103 400 575**

31 December 2015 **RUB'000**	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	59 727 312	72 654 368	5 632 906	**138 014 586**
Obligatory reserves with the CBR	-	5 936 111	-	**5 936 111**
Deposits in credit and other financial institutions	209 513 317	14 053 586	53 728 966	**277 295 869**
Financial instruments at fair value through profit or loss	2 711 998	69 335 105	89 886	**72 136 989**
Available-for-sale securities	79 312 931	8 089 978	-	**87 402 909**
Loans to customers	182 817 944	394 026 650	16 220 671	**593 065 265**
Property and equipment	-	7 004 418	-	**7 004 418**
Other assets	18 144 937	9 186 146	13 398	**27 344 481**
	552 228 439	**580 286 362**	**75 685 827**	**1 208 200 628**
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	**4 044 647**
Deposits by credit and other financial institutions	12 210 910	29 503 369	42 945 634	**84 659 913**
Deposits by customers	461 502 072	419 521 369	17 668 790	**898 692 231**
Debt securities issued	73 615 070	47 539 695	-	**121 154 765**
Deferred tax liability	-	2 380 552	-	**2 380 552**
Other liabilities	803 913	3 937 483	188 662	**4 930 058**
	552 176 612	**502 882 468**	**60 803 086**	**1 115 862 166**
Net position before hedging	**51 827**	**77 403 894**	**14 882 741**	**92 338 462**
Derivative financial instruments	(14 275 993)	29 973 084	(15 697 091)	-
Net position	**(14 224 166)**	**107 376 978**	**(814 350)**	**92 338 462**

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2016 and 31 December 2015 is disclosed in the table below:

31 December 2016 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	357 176 263	7 407 276	8 742 976	**373 326 515**
Obligatory reserves with the CBR	7 286 909	-	-	**7 286 909**
Deposits in credit and other financial institutions	397 310 009	1 919 385	4 250 754	**403 480 148**
Financial instruments at fair value through profit or loss	64 213 599	17 966 599	1 728 337	**83 908 535**
Available-for-sale securities	18 968 069	26 935 414	-	**45 903 483**
Loans to customers	505 265 634	50 452 327	70 817 099	**626 535 060**
	1 350 220 483	**104 681 001**	**85 539 166**	**1 540 440 650**
LIABILITIES				
Deposits by the CBR	247 169 523	-	-	**247 169 523**
Deposits by credit and other financial institutions	360 063 888	10 611 622	10 948 955	**381 624 465**
Deposits by customers	680 153 703	7 257 944	2 084 073	**689 495 720**
Debt securities issued	39 751 769	97 451 647	-	**137 203 416**
	1 327 138 883	**115 321 213**	**13 033 028**	**1 455 493 124**
Net position	**23 081 600**	**(10 640 212)**	**72 506 138**	**84 947 526**

31 December 2015 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	85 762 363	30 269 539	21 982 684	**138 014 586**
Obligatory reserves with the CBR	5 936 111	-	-	**5 936 111**
Deposits in credit and other financial institutions	258 580 188	-	18 715 681	**277 295 869**
Financial instruments at fair value through profit or loss	68 839 281	567 534	2 730 174	**72 136 989**
Available-for-sale securities	15 898 183	70 484 368	1 020 358	**87 402 909**
Loans to customers	489 337 845	33 306 856	70 420 564	**593 065 265**
	924 353 971	**134 628 297**	**114 869 461**	**1 173 851 729**
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	**4 044 647**
Deposits by credit and other financial institutions	73 444 089	11 153 444	62 380	**84 659 913**
Deposits by customers	895 003 621	118 782	3 569 828	**898 692 231**
Debt securities issued	42 486 328	78 668 437	-	**121 154 765**
	1 014 978 685	**89 940 663**	**3 632 208**	**1 108 551 556**
Net position	**(90 624 714)**	**44 687 634**	**111 237 253**	**65 300 173**

The majority of non-financial assets and liabilities is located in Russia.

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

RUB'000	Financial assets at fair value through profit or loss	Financial assets available for sale
2016		
Carrying amount of assets	6 543 543	19 818 447
Carrying amount of associated liabilities	5 927 099	17 377 715
2015		
Carrying amount of assets	2 654 432	2 115 753
Carrying amount of associated liabilities	1 978 085	2 066 562

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as "pledged under sale and repurchase agreements" in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of the Russian Federation and deposits by credit and other financial institutions (note 16 and 17). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Cash and cash equivalents	-	373 326 515	-	-	373 326 515	373 326 515
Obligatory reserves with the CBR	-	7 286 909	-	-	7 286 909	7 286 909
Deposits in credit and other financial institutions	-	403 480 148	-	-	403 480 148	403 480 148
Financial instruments at fair value through profit or loss	83 908 535	-	-	-	83 908 535	83 908 535
Available-for-sale financial assets	-	-	45 903 483	-	45 903 483	45 791 826
Loans to customers	-	626 535 060	-	-	626 535 060	628 248 181
Other financial assets	-	1 845 627	-	-	1 845 627	1 845 627
	83 908 535	**1 412 474 259**	**45 903 483**	**-**	**1 542 286 277**	**1 543 887 741**

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Deposits by the CBR	-	-	-	247 169 523	247 169 523	247 169 523
Deposits by credit and other financial institutions	-	-	-	381 624 465	381 624 465	381 624 465
Deposits by customers	-	-	-	689 495 720	689 495 720	694 976 416
Debt securities issued	-	-	-	137 203 416	137 203 416	139 661 340
Other financial liabilities	1 081 474	-	-	1 884 874	2 966 348	2 966 348
	1 081 474	**-**	**-**	**1 457 377 998**	**1 458 459 472**	**1 466 398 092**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2016 are:

- discount rates from 9.5% to 18.1% (roubles) and from 3.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.0% (roubles) and from 10.1% to 12.5% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 10.5% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.1% to 9.8% (roubles) and from 0.6% to 1.6% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	138 014 586	-	-	138 014 586	138 014 586
Obligatory reserves with the CBR	-	5 936 111	-	-	5 936 111	5 936 111
Deposits in credit and other financial institutions	-	277 295 869	-	-	277 295 869	277 295 869
Financial instruments at fair value through profit or loss	72 136 989	-	-	-	72 136 989	72 136 989
Available-for-sale financial assets	-	-	87 402 909	-	87 402 909	87 291 642
Loans to customers	-	593 065 265	-	-	593 065 265	598 244 308
Other financial assets	-	2 433 915	-	-	2 433 915	2 433 915
	72 136 989	**1 016 745 746**	**87 402 909**	**-**	**1 176 285 644**	**1 181 353 420**
Deposits by the CBR	-	-	-	4 044 647	4 044 647	4 044 647
Deposits by credit and other financial institutions	-	-	-	84 659 913	84 659 913	84 659 913
Deposits by customers	-	-	-	898 692 231	898 692 231	912 243 118
Debt securities issued	-	-	-	121 154 765	121 154 765	119 441 817
Other financial liabilities	782 834	-	-	911 320	1 694 154	1 694 154
	782 834	**-**	**-**	**1 109 462 876**	**1 110 245 710**	**1 122 083 649**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2015 are:

- discount rates from 12.1 to 15.5% (roubles) and from 4.5% to 10.8% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.3% to 23.0% (roubles) and from 10.4% to 19.0% (foreign currency) are used for discounting future cash flows from loans to individuals;

- discount rates from 8.0% to 12.0% (roubles) and from 1.3% to 3.0% (foreign currency) are used for discounting future cash flows from retail deposits;
- discount rates from 9.5% to 12.0% (roubles) and from 2.0% to 4.9% (foreign currency) are used for discounting future cash flows from corporate deposits.

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

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

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 111 657 thousand (31 December 2015: RUB 111 267 thousand) cannot be determined.

Fair value hierarchy

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

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

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which amortized cost does not approximate their carrying amount as at 31 December 2016 and 31 December 2015:

31 December 2016	**Level 1 RUB'000**	**Level 2 RUB'000**	**Level 3 RUB'000**	**Valuation technique used for Level 2 and 3**	**Total RUB'000**
Financial assets at fair value through profit or loss	81 359 524	2 549 011	-	Discounted cash flows	**83 908 535**
Available-for-sale securities	45 791 826	-	-	Discounted cash flows	**45 791 826**
Loans to customers	-	-	626 535 060	Discounted cash flows	**626 535 060**
Deposits by customers	-	694 976 416	-	Discounted cash flows	**694 976 416**
Debt securities issued	138 515 696	1 145 644	-	Discounted cash flows	**139 661 340**
Other financial liabilities-Derivatives	-	1 081 474	-	Discounted cash flows	**1 081 474**

31 December 2015	**Level 1 RUB'000**	**Level 2 RUB'000**	**Level 3 RUB'000**	**Valuation technique used for Level 2 and 3**	**Total RUB'000**
Financial assets at fair value through profit or loss	71 210 799	926 190	-	Discounted cash flows	**72 136 989**
Available-for-sale securities	74 338 170	12 953 472	-	Discounted cash flows	**87 291 642**
Loans to customers	-	-	598 244 308	Discounted cash flows	**598 244 308**
Deposits by customers	-	912 243 118	-	Discounted cash flows	**912 243 118**
Debt securities issued	118 397 258	1 044 559	-	Discounted cash flows	**119 441 817**
Other financial liabilities-Derivatives	-	782 834	-	Discounted cash flows	**782 834**

During 2016 and 2015 there were no transfers of assets between Level 1 and Level 2.

32 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2016 RUB'000	**2015 RUB'000**
Profit for the period	10 873 617	1 509 471
Weighted average number of ordinary shares in issue	23 879 709 866	17 430 172 429
Basic and diluted earnings per share in RUB (per share)	**0.46**	**0.09**

33 Acquisitions and disposals

Acquisition of subsidiary

On 18 August 2016 the Group acquired 100% shares in LLC "Bank SKS", a company specialising on investment banking activities. The purchase consideration was RUB 560 000 thousand, which was settled in cash.

The fair value amounts of assets and liabilities of the acquired subsidiary recognized in the Group's consolidated financial statements were as follows at the date of acquisition:

RUB'000	Recognized amounts on acquisition
ASSETS	
Cash and cash equivalents	366 370
Other assets	206 222
LIABILITIES	
Current accounts and deposits from customers	11 550
Deffered tax liabilities	955
Other liabilities	87
Net identifiable assets and liabilities	**560 000**
Consideration paid	560 000
Cash acquired	366 370
Net cash outflow	**(193 630)**

The amounts of revenue and profit or loss of LLC "Bank SKS" since the acquisition date and for the year ended 31 December 2016 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

34 Events subsequent to the reporting date

In January 2017 the Bank paid out the 5th coupon in amount of RUB 216.96 million or RUB 55.45 per one bond on exchange bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2017 the Bank paid out the 5th coupon in amount of RUB 754.04 million or RUB 60.49 per one bond on exchange bonds series BO-11. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with a maturity of 5 years and additional issue on 24 December 2014 in the amount of RUB 10 billion.

In February 2017 the Bank paid out the 8th coupon in the amount of RUB 122.16 million or RUB 61.08 per one bond on domestic bonds series 12. The issue was originally placed on 27 February 2013 with a maturity of 5.5 years. The nominal value of the issue is RUB 2 billion.

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

15 March 2017