

Consolidated Financial Statements

Sberbank of Russia and its subsidiaries

For the year ended 31 December 2016

with Independent Auditor's Report

Consolidated Financial Statements

CONTENTS

Independent Auditor's Report

Consolidated Financial Statements

Consolidated Statement of Financial Position.....	1
Consolidated Statement of Profit or Loss.....	2
Consolidated Statement of Comprehensive Income.....	3
Consolidated Statement of Changes in Equity	4
Consolidated Statement of Cash Flows	5

Notes to the Consolidated Financial Statements

1	Introduction.....	7
2	Operating Environment of the Group.....	7
3	Basis of Preparation and Significant Accounting Policies	10
4	Critical Accounting Estimates and Judgements in Applying Accounting Policies.....	24
5	Adoption of New or Revised Standards and Interpretations.....	26
6	New Accounting Pronouncements	28
7	Cash and Cash Equivalents	32
8	Financial Assets at Fair Value through Profit or Loss	33
9	Due from Banks	35
10	Loans and Advances to Customers	36
11	Securities Pledged under Repurchase Agreements	48
12	Investment Securities Available-for-Sale	49
13	Investment Securities Held-to-Maturity	50
14	Premises and Equipment.....	52
15	Assets and Liabilities of the Disposal Groups and Non-current Assets Held for Sale	53
16	Other Assets	54
17	Due to Banks.....	57
18	Due to Individuals and Corporate Customers.....	57
19	Debt Securities in Issue.....	58
20	Other Borrowed Funds	60
21	Financial Liabilities at Fair Value through Profit or Loss other than Debt Securities in Issue	60
22	Other Liabilities.....	61
23	Subordinated Debt	64
24	Share Capital and Treasury Shares	65
25	Interest Income and Expense	66
26	Fee and Commission Income and Expense.....	67
27	Net Results from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation.....	67
28	Net Results of Non-core Business Activities	68
29	Net premiums, claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations	68
30	Operating Expenses	69
31	Income Taxes.....	69
32	Earnings per Share and Dividends	72
33	Segment Analysis.....	73
34	Financial and Insurance Risk Management	79
35	Contingencies and Commitments.....	99
36	Derivative Financial Instruments	101
37	Fair Value Disclosures.....	104
38	Transfers of Financial Assets and Pledged Assets.....	116
39	Offsetting of Financial Instruments	117
40	Related Party Transactions	118
41	Operations with State-Controlled Entities and Government Bodies	121
42	Principal Subsidiaries	123
43	Capital Adequacy Ratio.....	123
44	Subsequent Events	124



Independent auditor's report

To the Shareholders and the Supervisory Board of Sberbank of Russia

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sberbank of Russia (the "Bank") and its subsidiaries (together - 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").

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 section "Auditor's responsibilities for the audit of the consolidated financial statements" of this auditor's report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Our audit approach

Overview

Audit Scope

- Year ended 31 December 2016 was the first year that AO PricewaterhouseCoopers Audit was appointed as an independent auditor of the consolidated financial statements of the Group prepared in accordance with IFRS. Our audit work included procedures related to the change of the auditor.
- We audited the financial information of the Bank. Total assets of the Bank (excluding intercompany balances) represented approximately 80% of total assets of the Group as at 31 December 2016. We applied professional judgement about our involvement in the audit of the financial information of subsidiaries of the Bank.
- We also conducted audit work at the Group level in relation to the consolidation of the financial information and the preparation of the consolidated financial statements.

Key audit matters

- Provision for impairment of loans and advances to customers.
- Valuation of derivative financial instruments.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

Year ended 31 December 2016 was the first year that AO PricewaterhouseCoopers Audit was appointed as an independent auditor of the consolidated financial statements of the Group prepared in accordance with IFRS. Our audit work included procedures related to the change of the auditor:

- Communications with the management and the former auditor of the Group to understand the Group's business, processes and risks and to gather other information required to accept and plan the audit.
- Review of the working papers of the former auditor to obtain evidence regarding the opening balances and to familiarise ourselves with the Group.
- Evaluation of key accounting positions and key audit matters from prior years to assess impact of those on the consolidated financial statements and the audit.



- Analysis of results of our audits of the Bank's separate interim accounting (financial) statements prepared in accordance with the Russian Accounting Rules for the periods ended 30 June 2016 and 30 September 2016, and results of our reviews of the interim condensed consolidated financial statements of the Group prepared in accordance with IAS 34 "Interim Financial Reporting" for the periods ended 30 June 2016 and 30 September 2016.

We tailored the scope of our audit to ensure that we perform enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls, and the industry in which the Group operates. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that represented a risk of material misstatement due to fraud.

We audited the financial information of the Bank. Among other audit procedures, our work included audit procedures in respect of calculations and adjustments necessary for transformation of the accounting records of the Bank maintained in accordance with the Russian Accounting Rules to the financial information prepared in accordance with IFRS.

We applied professional judgement about our involvement in the audit of the financial information of subsidiaries of the Bank. We sent instructions to the auditors of certain subsidiaries. Such instructions included our risk assessment, assigned overall materiality levels, and auditing, reporting, ethical and other requirements. We obtained and evaluated communications with the respective auditors, and performed other procedures to determine that we obtained sufficient audit evidence in relation to subsidiaries of the Bank.

We also performed audit procedures in relation to consolidation of the financial information of the Group and preparation of the consolidated financial statements of the Group.



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.

Key audit matter	How our audit addressed the Key audit matter
<p>Provision for impairment of loans and advances to customers</p> <p>We focused on this matter due to significance of loans and advances to customers balance and significance of judgements and estimates required for calculation of the related provision.</p> <p>The provision represents management's best estimate of losses incurred from loans and advances to customers as at the balance sheet date.</p> <p>Collective provisions are calculated on a group basis for loans and advances of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loan portfolios. The design of and inputs to the models are subject to management judgement.</p> <p>Individual provisions are calculated on an individual basis for significant loans and advances. For such provisions, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to the loan.</p> <p>Note 3 "Basis of Preparation and Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies" and Note 10 "Loans and Advances to Customers" included in the consolidated financial statements provide detailed information on the provision for impairment of loans and advances to customers.</p>	<p>In relation to the Bank:</p> <p>We assessed the key methodologies for calculation of the provision for consistency with the requirements of IFRS.</p> <p>We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over identification of impaired balances, development and maintenance of models and input data, transfer of input data to models and of output data to the trial balance, and calculation of the provision. The purpose of our procedures was to determine that we could rely on these controls for the purposes of our audit.</p> <p>We tested (on a sample basis) loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.</p> <p>We tested (on a sample basis) loans and advances for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, examined discounted cash flows calculations performed by management, challenged the assumptions and compared estimates to external evidence where available.</p> <p>We tested (on a sample basis) the basis and operation of collective provisioning models and the data and assumptions used. Our work included comparison of the principal assumptions made with our own knowledge of other practices and actual experience, testing of the models through re-performance, and various analytical and other procedures.</p> <p>In relation to subsidiaries of the Bank:</p> <p>Where necessary and appropriate procedures similar to the above were performed in relation to subsidiaries of the Bank.</p>



Key audit matter**How our audit addressed the Key audit matter**

Valuation of derivative financial instruments

We focused on this matter due to complexity of valuation of some derivative financial instruments and significance of judgments and estimates required for those valuations. Current financial markets are volatile, positions of the Group in derivative financial instruments are significant and therefore financial position and results of the Group may be significantly impacted by valuation of the derivative financial instruments.

Derivative financial instruments valued using a valuation technique with observable inputs derived from well-known market information systems are mainly interest rate swaps, currency swaps, forward foreign exchange contracts and foreign exchange option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations and Black-Scholes models. The models incorporate various inputs, including foreign exchange spot and forward rates, credit quality of counterparties, interest rate curves and implied volatility.

Note 3 “Basis of Preparation and Significant Accounting Policies”, Note 4 “Critical Accounting Estimates and Judgments in Applying Accounting Policies”, Note 36 “Derivative Financial Instruments” and Note 37 “Fair Value Disclosures” included in the consolidated financial statements provide detailed information on the derivative financial instruments and their valuation.

In relation to the Bank:

Our internal valuation experts assessed the key methodologies, formulas and sources of information for valuation for consistency with the requirements of IFRS.

We assessed and tested (on a sample basis) the design of the controls over valuation. These controls included those over input data, transfer of input data to models and of output data to the trial balance, and calculation of the values. The purpose of our procedures was to determine that we could rely on these controls for the purposes of our audit.

We performed detailed testing (on a sample basis) of transfer of details of the derivative financial instruments to the models and of results of valuation from the models to the trial balance.

Our internal experts valued a sample of derivative financial instruments covering all major types of instruments using independent models and source data, compared the results to the Bank’s valuations and investigated differences.

In relation to subsidiaries of the Bank:

Where necessary and appropriate procedures similar to the above were performed in relation to subsidiaries of the Bank.

Other information

Management is responsible for other information. The other information comprises annual report which is expected to be available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As at the date of this auditor’s report the other information is not available to us and we do not provide any reporting in respect of the other information.



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 ability of the Group 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 financial reporting process of the Group.

Auditor's 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 auditor's 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 scepticism 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 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 internal control of the Group.
- 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 ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 or 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 auditor's 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 on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

Management of the Bank is responsible for compliance of the Group with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity" we have examined the following during the audit of the consolidated financial statements of the Group for the year ended 31 December 2016:

- compliance of the Group as at 1 January 2017 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Group with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

- 1) as related to compliance of the Group with the statutory ratios set by the Bank of Russia:
as at 1 January 2017, the Group statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Group other than the procedures we considered necessary to express our opinion on whether or not the consolidated financial statements of the Group 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 IFRS.



- 2) as related to compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems:
 - a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2017, subdivisions of the Bank for managing significant risks of the Group were not subordinated or accountable to subdivisions assuming corresponding risks;
 - b) internal documents of the Bank effective as at 1 January 2017 which set out the methodologies to identify and manage significant credit, operational, market and liquidity risks of the Group, and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;
 - c) as at 1 January 2017, the Bank had in place a reporting system for significant credit, operational, market and liquidity risks, and for equity (capital) of the Group;
 - d) frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2016 as related to management of credit, operational, market and liquidity risks of the Group complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective methodologies of the Bank as well as recommendations on their improvement;
 - e) as at 1 January 2017, the authority of the Supervisory Board of the Bank and its executive bodies included control over compliance of the Group with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Group and their consistent application in 2016, the Supervisory Board of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Group solely to examine compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems.

The engagement partner and the certified auditor responsible for the audit resulting in this independent auditor's report is Evgeniy Kriventsev.

1 March 2017
Moscow, Russian Federation



E.N. Kriventsev, certified auditor (licence no. 01-000198)
AO PricewaterhouseCoopers Audit

Audited entity: Merchant of Russia
Main state registration number: 1027700132195, issued on 16 August 2002.
Address: 117997, Russian Federation, Moscow, Vavilova 19

Independent auditor: AO PricewaterhouseCoopers Audit
State registration certificate number 008.890, issued by the Moscow Registration Chamber on 28 February 1992
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration number 1027700148431
Member of Self-regulated organisation of auditors "Russian Union of auditors" (Association)
Main registration record number 11603050547 in the register of auditors and audit organizations

Consolidated Statement of Financial Position

<i>in billions of Russian Roubles</i>	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	2,560.8	2,333.6
Mandatory cash balances with central banks		402.0	387.9
Financial assets at fair value through profit or loss	8	605.5	866.8
Due from banks	9	965.4	750.6
Loans and advances to customers	10	17,361.3	18,727.8
Securities pledged under repurchase agreements	11	113.9	222.0
Investment securities available-for-sale	12	1,658.9	1,874.3
Investment securities held-to-maturity	13	545.8	477.7
Deferred tax asset	31	13.9	17.3
Premises and equipment	14	482.9	499.2
Assets of the disposal groups and non-current assets held for sale	15	5.8	212.7
Other financial assets	16	314.5	671.0
Other non-financial assets	16	337.8	293.8
TOTAL ASSETS		25,368.5	27,334.7
LIABILITIES			
Due to banks	17	561.9	1,045.9
Due to individuals	18	12,449.6	12,043.7
Due to corporate customers	18	6,235.2	7,754.6
Debt securities in issue	19	1,161.0	1,378.5
Other borrowed funds	20	261.4	398.0
Financial liabilities at fair value through profit or loss other than debt securities in issue	21	212.9	426.6
Deferred tax liability	31	55.1	132.0
Liabilities of the disposal groups	15	0.8	185.9
Provisions on insurance and pension fund operations	22	479.2	323.6
Other financial liabilities	22	312.6	397.6
Other non-financial liabilities	22	77.3	66.8
Subordinated debt	23	739.9	806.5
TOTAL LIABILITIES		22,546.9	24,959.7
EQUITY			
Share capital	24	87.7	87.7
Treasury shares	24	(7.9)	(6.7)
Share premium		232.6	232.6
Revaluation reserve for office premises		66.9	69.3
Fair value reserve for investment securities available-for-sale		24.0	(45.7)
Foreign currency translation reserve		(19.8)	101.1
Remeasurement of defined benefit pension plans		(1.1)	(0.7)
Retained earnings		2,435.7	1,935.2
Total equity attributable to shareholders of the Bank		2,818.1	2,372.8
Non-controlling interest		3.5	2.2
TOTAL EQUITY		2,821.6	2,375.0
TOTAL LIABILITIES AND EQUITY		25,368.5	27,334.7

Approved for issue and signed on behalf of the Executive Board on 1 March 2017.



Herman Gref,
Chairman of the Executive Board and CEO



Alexey Minenko,
Acting Chief Accountant

Consolidated Statement of Profit or Loss

<i>in billions of Russian Roubles</i>	Note	Year ended 31 December	
		2016	2015
Interest income	25	2,399.0	2,279.6
Interest expense	25	(986.9)	(1,253.2)
Deposit insurance expenses	25	(49.3)	(38.4)
Net interest income		1,362.8	988.0
Net provision charge for impairment of debt financial assets	9,10,13	(342.4)	(475.2)
Net interest income after provision charge for impairment of debt financial assets		1,020.4	512.8
Fee and commission income	26	436.3	384.1
Fee and commission expense	26	(87.2)	(65.1)
Net gains from trading securities		7.4	5.8
Net gains from securities designated as at fair value through profit or loss		6.0	12.5
Net gains from investment securities available-for-sale		11.1	4.8
Impairment of investment securities available-for-sale		(0.5)	(0.1)
Net (losses) / gains from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	27	(53.4)	83.1
Net gains / (losses) from operations with precious metals, precious metals derivatives and precious metals accounts translation		6.5	(1.0)
Net gains from operations with other derivatives		0.7	8.4
Net losses from revaluation of office premises	14	(25.0)	—
Impairment of premises, equipment and intangible assets	14,16	(0.3)	(2.8)
Goodwill impairment	16	(0.3)	(6.0)
Losses on initial recognition of financial instruments and on loans restructuring		(0.1)	(6.2)
Net charge for other provisions	16,22	(19.4)	(6.3)
Revenue of non-core business activities	28	30.8	24.4
Cost of sales and other expenses of non-core business activities	28	(27.1)	(25.4)
Net premiums from insurance and pension fund operations	29	192.8	223.3
Net claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations	29	(177.8)	(214.1)
Other net operating income		34.2	22.4
Operating income		1,355.1	954.6
Operating expenses	30	(677.6)	(623.4)
Profit before tax		677.5	331.2
Income tax expense	31	(135.6)	(108.3)
Profit for the year		541.9	222.9
Attributable to:			
- shareholders of the Bank		540.5	223.3
- non-controlling interest		1.4	(0.4)
Earnings per ordinary share attributable to the shareholders of the Bank, basic and diluted	32	25.00	10.36
(expressed in RR per share)			

Approved for issue and signed on behalf of the Executive Board on 1 March 2017.



Herman Gref,
Chairman of the Executive Board and CEO



Alexey Minenko,
Acting Chief Accountant

Consolidated Statement of Comprehensive Income

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Profit for the year	541.9	222.9
Other comprehensive income:		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Investment securities available-for-sale:		
- Net gains on revaluation of investment securities available-for-sale, net of tax	78.2	129.4
- Impairment of investment securities available-for-sale transferred to statement of profit or loss, net of tax	0.4	0.1
- Accumulated gains transferred to consolidated statement of profit or loss upon disposal of investment securities available-for-sale, net of tax	(8.9)	(3.8)
Exchange differences on translating foreign operations	(121.0)	17.9
Total other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods, net of tax	(51.3)	143.6
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>		
Revaluation of office premises, net of tax	2.2	—
Remeasurement of defined benefit pension plans	(0.4)	(0.7)
Total other comprehensive income / (loss) that will not be reclassified to profit or loss in subsequent periods, net of tax	1.8	(0.7)
Total other comprehensive (loss) / income	(49.5)	142.9
Total comprehensive income for the year	492.4	365.8
Attributable to:		
- shareholders of the Bank	491.1	366.2
- non-controlling interest	1.3	(0.4)

Consolidated Statement of Changes in Equity

<i>in billions of Russian Roubles</i>	Note	Attributable to shareholders of the Bank										
		Share capital	Treasury shares	Share premium	Revaluation reserve for office premises	Fair value reserve for investment securities available-for-sale	Foreign currency translation reserve	Remeasurement of defined benefit pension plans	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 31 December 2014		87.7	(7.6)	232.6	72.3	(171.4)	83.2	—	1,718.8	2,015.6	4.5	2,020.1
Changes in equity for the year ended 31 December 2015												
Net result from treasury shares transactions		—	0.9	—	—	—	—	—	0.4	1.3	—	1.3
Dividends declared	32	—	—	—	—	—	—	—	(10.2)	(10.2)	—	(10.2)
Transfer of revaluation reserve for office premises upon disposal or depreciation		—	—	—	(3.0)	—	—	—	3.0	—	—	—
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	—	—	—	(1.9)	(1.9)
Other movements related to pension fund operations		—	—	—	—	—	—	—	(0.1)	(0.1)	—	(0.1)
<i>Profit / (loss) for the year</i>		—	—	—	—	—	—	—	223.3	223.3	(0.4)	222.9
<i>Other comprehensive income / (loss) for the year</i>		—	—	—	—	125.7	17.9	(0.7)	—	142.9	—	142.9
Total comprehensive income / (loss) for the year		—	—	—	—	125.7	17.9	(0.7)	223.3	366.2	(0.4)	365.8
Balance as at 31 December 2015		87.7	(6.7)	232.6	69.3	(45.7)	101.1	(0.7)	1,935.2	2,372.8	2.2	2,375.0
Changes in equity for the year ended 31 December 2016												
Net result from treasury shares transactions		—	(1.2)	—	—	—	—	—	(0.2)	(1.4)	—	(1.4)
Dividends declared	32	—	—	—	—	—	—	—	(44.4)	(44.4)	—	(44.4)
Transfer of revaluation reserve for office premises upon disposal or depreciation		—	—	—	(4.6)	—	—	—	4.6	—	—	—
<i>Profit for the year</i>		—	—	—	—	—	—	—	540.5	540.5	1.4	541.9
<i>Other comprehensive income / (loss) for the year</i>		—	—	—	2.2	69.7	(120.9)	(0.4)	—	(49.4)	(0.1)	(49.5)
Total comprehensive income / (loss) for the year		—	—	—	2.2	69.7	(120.9)	(0.4)	540.5	491.1	1.3	492.4
Balance as at 31 December 2016		87.7	(7.9)	232.6	66.9	24.0	(19.8)	(1.1)	2,435.7	2,818.1	3.5	2,821.6

Consolidated Statement of Cash Flows

	Year ended 31 December	
<i>in billions of Russian Roubles</i>	2016	2015
Cash flows from operating activities		
Interest received	2,193.5	2,073.5
Interest paid	(915.0)	(1,105.3)
Deposit insurance expenses paid	(45.6)	(36.3)
Fees and commissions received	438.0	379.8
Fees and commissions paid	(83.1)	(63.6)
Net losses incurred on trading securities	(2.6)	(3.1)
Dividends received	2.0	1.6
Net gains received / (losses incurred) on securities designated as at fair value through profit or loss	2.1	(1.5)
Net losses incurred from trading in foreign currencies and from operations with foreign currency derivatives	(32.3)	(25.1)
Net gains received / (losses incurred) from operations with other derivatives	17.0	(1.2)
Net gains received / (losses incurred) from operations with precious metals and precious metals derivatives	3.4	(2.9)
Revenue received from non-core business activities	35.4	26.7
Expenses paid on non-core business activities	(28.0)	(25.0)
Insurance premiums received	87.1	61.0
Claims, benefits and acquisition costs on insurance operations paid	(2.8)	(1.3)
Pension fund premiums received	103.3	162.3
Claims, benefits and acquisition costs on pension fund operations paid	(19.3)	(8.0)
Other net operating income received	13.2	13.4
Operating expenses paid	(610.1)	(550.6)
Income tax paid	(214.0)	(1.5)
Cash flows from operating activities before changes in operating assets and liabilities	942.2	892.9
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with central banks	(115.2)	(18.6)
Net increase in financial assets at fair value through profit or loss	(87.6)	(164.5)
Net increase in due from banks	(190.6)	(471.2)
Net increase in loans and advances to customers	(64.9)	(157.5)
Net decrease / (increase) in other assets	242.4	(117.2)
Net decrease in due to banks	(424.3)	(2,624.3)
Net increase in due to individuals	1,103.3	2,127.6
Net (decrease) / increase in due to corporate customers	(889.3)	655.4
Net (decrease) / increase in debt securities in issue except for loan participation notes issued under the MTN programme of Sberbank	(83.0)	106.5
Net increase in financial liabilities at fair value through profit or loss other than debt securities in issue	1.8	7.6
Net (decrease) / increase in other liabilities	(47.3)	57.9
Net cash from operating activities	387.5	294.6

Consolidated Statement of Cash Flows (Continued)

<i>in billions of Russian Roubles</i>	Note	Year ended 31 December	
		2016	2015
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(1,569.8)	(850.9)
Proceeds from disposal and redemption of investment securities available-for-sale		1,765.3	742.4
Interest received on investment securities available-for-sale		128.9	116.5
Purchase of investment securities held-to-maturity		(116.5)	(122.2)
Proceeds from redemption of investment securities held-to-maturity		73.5	58.3
Interest received on investment securities held-to-maturity		35.5	30.3
Acquisition of premises, equipment and intangible assets		(112.1)	(74.3)
Proceeds from disposal of premises, equipment and intangible assets including insurance payments		19.9	9.9
Acquisition of investment property		(0.6)	(0.6)
Proceeds from disposal of investment property		1.3	0.3
Acquisition of associates		—	(1.2)
Proceeds from disposal of associates		0.4	—
Proceeds from disposal of subsidiaries net of cash disposed		15.3	0.7
Net cash from / (used in) investing activities		241.1	(90.8)
Cash flows from financing activities			
Other borrowed funds received		154.6	151.9
Redemption of other borrowed funds		(206.2)	(377.2)
Interest on other borrowed funds paid		(9.4)	(10.6)
Funds received from subordinated debt issued or reissued		0.3	0.6
Redemption of subordinated debt		(18.5)	(27.4)
Interest on subordinated debt paid		(46.6)	(47.2)
Funds received from loan participation notes issued or reissued		2.6	12.2
Redemption of loan participation notes issued		(42.9)	(166.7)
Interest on loan participation notes issued paid		(32.1)	(38.2)
Purchase of treasury shares		(4.5)	(6.5)
Proceeds from disposal of treasury shares		3.1	7.8
Dividends paid	32	(44.5)	(10.3)
Net cash used in financing activities		(244.1)	(511.6)
Effect of exchange rate changes on cash and cash equivalents		(157.8)	333.1
Net effect of changes in cash and cash equivalents included in disposal groups		0.5	(0.5)
Net increase in cash and cash equivalents		227.2	24.8
Cash and cash equivalents as at the beginning of the year		2,333.6	2,308.8
Cash and cash equivalents as at the end of the year	7	2,560.8	2,333.6

Notes to the Consolidated Financial Statements – 31 December 2016

1 Introduction

These consolidated financial statements of Sberbank of Russia (Sberbank, the “Bank”) and its subsidiaries (together referred to as the “Group” or “Sberbank Group”) have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016. Principal subsidiaries include Russian and foreign commercial banks and other companies controlled by the Group. A list of principal subsidiaries included in these consolidated financial statements is disclosed in Note 42.

The Bank is a public joint-stock commercial bank established in 1841 and operating in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank’s principal shareholder, the Central Bank of the Russian Federation (the “Bank of Russia”), owns 52.3% of ordinary shares or 50.0% plus 1 share of the issued and outstanding ordinary and preferred shares as at 31 December 2016 (31 December 2015: 52.3% of ordinary shares or 50.0% plus 1 share of the issued and outstanding ordinary and preferred shares).

As at 31 December 2016 the Supervisory Board of the Bank is headed by Sergey M. Ignatiev, Chairman of the Bank of Russia in the period of 2002-2013. The Supervisory Board of the Bank includes representatives from both the Bank’s principal shareholder and other shareholders as well as independent directors.

The Bank operates under a general banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian. The Bank is regulated and supervised by the Bank of Russia as a united regulator for banking, insurance and financial markets activities in the Russian Federation. The Group’s banks/companies operate under the banking/companies regulatory regimes of their respective countries.

The Group’s principal business activity is corporate and retail banking. This includes, but is not limited to, deposit taking and commercial lending in freely convertible currencies, local currencies of countries where the subsidiary banks operate and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. As at 31 December 2016 the Group conducts its business in Russia through Sberbank with its network of 14 (31 December 2015: 16) regional head offices, 79 (31 December 2015: 78) branches and 15 016 (31 December 2015: 16,400) sub-branches, and through principal subsidiaries located in Russia such as JSC Sberbank Leasing, LLC Sberbank Capital, companies of ex-Troika Dialog Group Ltd., JSC Non-state Pension Fund of Sberbank, LLC Insurance company “Sberbank insurance life”, LLC Insurance company “Sberbank insurance”, LLC Sberbank Factoring and Cetelem Bank LLC (former BNP Paribas Vostok LLC). From 1 January 2016 Vostochno-Sibirsky Regional head office was reorganized by reallocation of its branch network into organizational structure of Sibirsky Regional head office whereas Severo-Kavkazsky Regional head office was reorganized by reallocation of its branch network into organizational structure of Yugo-Zapadny Regional head office. The Group carries out banking operations in Turkey, Ukraine, Belarus, Kazakhstan, Austria, Switzerland and other countries of Central and Eastern Europe and also conducts operations through a branch office in India, representative offices in Germany and China and companies of ex-Troika Dialog Group Ltd. located in the United States of America, the United Kingdom, Cyprus and certain other jurisdictions.

The actual headcount of the Group’s employees as at 31 December 2016 was 325,075 (31 December 2015: 330,677).

Registered address and place of business. The Bank’s registered address is: Vavilova str., 19, Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in Russian Roubles (“RR”). All amounts are expressed in RR billions unless otherwise stated.

2 Operating Environment of the Group

The Group conducts its business in the Russian Federation, Turkey, Belarus, Kazakhstan, Ukraine, Austria, Switzerland and other countries of Central and Eastern Europe, and also conducts operations through a branch office in India, representative offices in Germany and China and companies of ex-Troika Dialog Group Ltd. located in the United States of America, the United Kingdom, Cyprus and certain other jurisdictions.

Russian Federation. The most part of the Group operations is conducted in the Russian Federation.

2 Operating Environment of the Group (continued)

During 2016 the Russian economy demonstrated uncertain dynamics. A number of economic indicators in 2016 reflect the decline of influence of the main negative factors on economic development. At the same time the factors of investments reduction and decline in the household consumption continue to exert significant negative impact on the growth of the economy of the Russian Federation. In addition to the factors above the duration and depth of the recession were caused by unfavorable raw material market conjuncture, particularly low oil prices, and the effect of international sectoral sanctions against Russia.

At the end of 2016 GDP declined by 0.2%¹ year-on-year, while at the end of 2015 GDP declined by 3.7%¹. The dynamics of GDP excluding the influence of seasonal factors shifted to growth. An increase of 0.6%, excluding the influence of seasonal factors, was recorded in the fourth quarter of 2016².

The industrial output in 2016 increased by 1.1%¹ compared to 2015, when reduction of industrial production amounted to 3.4%¹.

Retail sales decreased by 5.2%¹ for 2016 year-on-year compared to reduction by 10.0%¹ in 2015. The grounds of the deepening recession in retail is continuing fall in the real disposable income (by 5.9%¹ in 2016 year-on-year compared to decrease by 4.0%¹ in 2015). At the same time retail lending, the reduction of which previously impacted contraction of consumption, increased by 1.4%² in 2016, while in 2015 retail lending decreased by 6.3%² adjusted for the foreign exchange revaluation.

The public's propensity to save reduced to pre-crises levels – the share of disposable income allocated to savings amounted to 11.3%¹ in 2016. This indicator decreased significantly compared to 2015 (14.3%¹ of disposable income). The consumer confidence index which reflects the total consumer expectations of the public increased by 1.0% to (18.0)%¹ in the fourth quarter of 2016 compared to the third quarter of 2016.

Annual consumer inflation slowed from 12.9%¹ in December 2015 to 5.4%¹ in December 2016. The trend to lower inflation gave an opportunity to the Bank of Russia to reduce the key rate step-by-step and increases the likelihood of the Bank of Russia key rate cut in 2017. In June 2016 the Bank of Russia key rate was decreased by 50 basis points to 10.5% compared to the beginning of the year; in September 2016 the key rate was further decreased by 50 basis points to 10.0%.

During 2016 the price per barrel of Urals oil fluctuated in the range of US 24.5-53.9 dollars per barrel, reaching a local minimum at US 24.5 dollars per barrel in January 2016. The dynamics of the Russian Rouble exchange rate during 2016 was determined by the dynamics of oil prices and the reduction of geopolitical risk. By the end of January 2016 the exchange rate reached 82 Russian Roubles per the US dollar after the drop in oil prices. But the gradual rise in oil prices and the ease of geopolitical tensions around Russia were followed by the Rouble strengthening. By the end of December 2016 the Russian Rouble appreciated to 60.7 Russian Roubles per US dollar, i.e. by 16.8% in 2016 as a whole.

In 2016 the surplus in the current account of the balance of payments of the Russian Federation amounted to USD 22.2 billion² compared to USD 69.0 billion² year-on-year. The reduction in the surplus in the current account was caused by contraction of export operations due to drop in oil prices. The capital outflow reached USD 15.4 billion² for 2016 compared to USD 57.5 billion² year-on-year. During 2016 the foreign debt of the Russian Federation increased by USD 0.3 billion² to USD 518.7 billion² caused by the growth of debt of non-financial real sector.

Russian banking sector completed 2016 with a profit of RR 930.0 billion² compared to RR 192.0 billion² in 2015. Taking into account profit earned by the Bank, the rest of the Russian banking system earned profit of RR 413.0 billion².

In 2016 assets of the Russian banking system adjusted for the foreign exchange revaluation increased by 1.9%². The loan portfolio of the Russian banking sector adjusted for the foreign exchange revaluation declined by 2.4%² in 2016, primarily due to the reduction of the corporate portfolio by 3.6%². At the same time loans to individuals increased in 2016 by 1.4%² (adjusted for the foreign exchange revaluation).

¹ Rosstat data

² Bank of Russia data, Russian Accounting Standards data

2 Operating Environment of the Group (continued)

In 2016 deposits of individuals increased by 9.2%¹ (adjusted for the foreign exchange revaluation), while deposits and current/settlement accounts of corporate clients decreased by 2.8%¹ (adjusted for the foreign exchange revaluation).

The share of overdue loans in the loan portfolio of the Russian banking sector reached the peak in summer of 2016 (7.5%¹ in August), and then returned to the level in the beginning of 2016. During 2016 the share of overdue loans in the corporate loan portfolio grew up from 6.2%¹ to 6.3%¹, and decreased in the retail loan portfolio - from 8.1%¹ to 7.9%¹. In 2016 banks reduced significantly provision charges for loan impairment. Additional provision charge for loan impairment recognized by the banks in 2016 amounted to only RR 188.0 billion¹ (RR 1 352.0 billion¹ in 2015), increasing total provisions by 3.5%¹ since the beginning of the year. Dependence of the Russian banking sector on the borrowings from the Bank of Russia continued to decrease: its share in the total amount of liabilities and equity of the Russian banking system decreased from 6.5%¹ to 3.4%¹ (a decline of RR 2.6 trillion¹ in absolute terms) in 2016.

At the same time the situation on the financial markets has improved considerably during 2016. RTS index grew by 52.2% and MICEX index grew by 26.8%. Russian Rouble capitalization of the Bank increased by 71.0% in 2016.

In September 2016 the international rating agency Standard&Poor's changed the outlook from "Negative" to "Stable" on the ratings of the Russian Federation. In October 2016 the international rating agency Fitch Ratings also changed the outlook from "Negative" to "Stable" on the long-term issuer default ratings of the Russian Federation. Besides, in October 2016 the rating agency Fitch Ratings changed the outlook from "Negative" to "Stable" on the long-term issuer default ratings of the Bank, which were affirmed at the investment level.

Other jurisdictions. In addition to Russia the Group conducts operations in Belarus, Kazakhstan, Ukraine, Central and Eastern Europe (Austria, Czech Republic, Bosnia and Herzegovina, Slovenia, Serbia, Hungary, Croatia), Turkey, Switzerland and some other countries. Tough economic and liquidity situation in many countries led to a decrease or insignificant growth of GDP followed by shrinking in consumption as well as in investment activities. The primary goals of the local regulators included supporting financial stability, management of budget deficit and inflation level regulation.

On 1 July 2016 the official currency unit of Belarus - Belarusian Rouble - was denominated in proportion of 10 000 old Belarusian Roubles (BYR – old symbol) to 1 new Belarusian Rouble (BYN – new symbol).

During 2016 political and economic situation in Ukraine remained unstable. Notwithstanding slight economic recovery as well as minor GDP growth in 2016 the Ministry of Economic Development and Trade of Ukraine downgraded its own forecast of economic recovery and inflation for the year 2017. Increase in foreign currency reserves and positive aggregate balance of payments were reported by the end of 2016. Nevertheless foreign trade balance remained negative. From 1 January 2016 and up to 31 December 2016 the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies, wherein to US Dollar the UAH depreciated by approximately 13% calculated based on the NBU exchange rate of UAH to US Dollar (from 1 January 2015 to 31 December 2015: 52%). Although the NBU maintains the range of previously imposed restrictions on purchase of foreign currencies, cross border settlements (including payment of dividends) and obligatory conversion of foreign currency proceeds into UAH, during 2016 conditions of these restrictions were gradually mitigated in order to stabilize situation on monetary and foreign exchange markets.

As at 31 December 2016, the Group's exposure to Ukrainian risk amounted to approximately 0.1% of total consolidated assets (31 December 2015: 0.4%). The exposure consists of net assets of and the Group funding to the Group's Ukrainian subsidiaries, as well as exposure of the Group (excluding that of its Ukrainian subsidiaries) to equity and debt instruments issued by and loans to the Ukrainian government and corporate clients. Management is monitoring these developments in the current environment and taking actions where appropriate. These and any further possible negative developments in Ukraine could adversely impact results and financial position of the Group in a manner not currently determinable.

¹ Bank of Russia data, Russian Accounting Standards data

2 Operating Environment of the Group (continued)

Due to tough economic and political situation in Middle East, Turkey inflation rate is 8.5% remaining over Central Bank of Turkey (CBT) official target range of 3-7%, Turkish Lira exchange rate lowered, and CBT tightened its monetary policy in the last quarter of 2016. Fiscal discipline continued to be an anchor for the economy. In 2016, central government budget produced a deficit equal to 1.1% of GDP.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of office premises, investment property, available-for-sale financial assets and financial instruments at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies (investees), including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree’s identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented as a separate component within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference (“gain from bargain purchase”) is recognized in the consolidated statement of profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies for the purpose of preparation of these consolidated financial statements.

3 Basis of Preparation and Significant Accounting Policies (continued)

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group (through entities which fall under definition of investment entity under IFRS 10 *Consolidated financial statements*) owns investments in other entities with significant influence. This investment business has a number of investments in other entities with significant influence. In accordance with the exemption within IAS 28 *Investments in Associates and Joint Ventures*, the Group does not account for such investments in associates using the equity method. Instead, these investments are measured at fair value through profit or loss and are classified as securities designated as at fair value through profit or loss in the consolidated statement of financial position with change in fair value reflected within net gains/(losses) arising from securities designated as at fair value through profit or loss.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments – Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortized cost as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Basis of Preparation and Significant Accounting Policies (continued)

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data. Refer to Note 37 for more information on fair values and fair value measurement used.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount and premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related consolidated statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. Premiums and discounts on variable interest instruments are amortized to the next interest repricing date except for premiums and discounts which reflect the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees and other items paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, other securities designated as at fair value through profit or loss and derivatives are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Group commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost.

Cash equivalents include correspondent accounts, overnight interbank loans and reverse sale and repurchase agreements with original maturity up to 1 business day. Amounts, which relate to funds that are of a restricted nature and/or have original maturity of more than 1 business day, are excluded from cash and cash equivalents.

Mandatory cash balances with central banks. Mandatory cash balances with central banks are carried at amortized cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Banking cards settlements. Banking cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement and are carried at amortized cost.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities on initial recognition included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase.

3 Basis of Preparation and Significant Accounting Policies (continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated statement of profit or loss as interest income. Dividend income is recognized when the Group's right to receive the dividend payment is established. Translation differences are included in net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of profit or loss as net gains/(losses) arising from trading securities in the period in which they arise.

Securities designated as at fair value through profit or loss. Securities designated as at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortized cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

Impairment of financial assets carried at amortized cost. Impairment losses on financial assets carried at amortized cost are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when deciding whether a financial asset is impaired or not are (i) past due status of financial asset, (ii) financial position of the borrower, (iii) unsatisfactory debt servicing and (iv) realisability of related collateral, if any.

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions. As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

Impairment losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset accounts for cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Reversals of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Write-off of assets at amortized cost. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

3 Basis of Preparation and Significant Accounting Policies (continued)

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- Identification of loans that are individually significant and contain signs of impairment, i.e., those loans, that, if fully impaired, would have a material impact on the Group's operating income.
- Determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount materially exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loans.
- All remaining loans and individually significant loans without objective evidence of impairment are assessed on a portfolio basis.

The Group applies the portfolio provisioning methodology prescribed by IAS 39 *Financial Instruments: Recognition and Measurement*, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organizational structure, credit history and business reputation of the borrower are also taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings. Calculation of provisions on collective basis depends on assets' credit risk profile (similar credit risk and product characteristics) and is based on internal models calculations. Also, for the purpose of collective assessment of past due loans and advances to customers the Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each sub-portfolio by the internal rating and ageing of past due debts.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

Investment securities available-for-sale. This classification includes investment securities, which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss. Dividend income is recognized when the Group's right to receive payment is established. Foreign currency exchange differences arising on debt investment securities available-for-sale are recognized in profit or loss in the period in which they arise. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is reclassified to profit or loss, or impaired.

3 Basis of Preparation and Significant Accounting Policies (continued)

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available-for-sale. Though a significant or prolonged decline in the fair value of the security below its cost is one of indicators that it is impaired, the Group also considers an objective evidence of expected receipt of contractual cashflows for debt securities. If the Group expects to receive all contractual cashflows in full, such debt security is not considered impaired. The cumulative impairment loss – measured as the difference between the acquisition cost (less scheduled principal repayments for debt securities) and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income and recognized in profit or loss. Recognized impairment losses on equity instruments are not reversed through profit or loss in a subsequent period. As for debt instruments classified as available-for-sale, if, in a subsequent period, the fair value of such instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through current period’s profit or loss. The unrealised gains/(losses) on revaluation of investment securities available-for-sale other than impairment losses are presented in other comprehensive income as net gains/(losses) on revaluation of investment securities available-for-sale.

If the Group has both the intention and ability to hold quoted in active market investment securities available-for-sale to maturity, they may be reclassified as investment securities held-to-maturity. In this case the fair value of securities as at the date of reclassification becomes their new amortized cost. For instruments with a fixed maturity the fair value reserve as at the date of reclassification is amortized to profit or loss during the period until maturity using the effective interest rate method.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to banks or due to corporate customers and individuals.

Funds granted under reverse repo agreements are recorded as cash and cash equivalents, due from banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price in sale and repurchase agreements and reverse repo agreements is treated as interest income/expense and accrued over the life of agreement using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as an obligation to deliver (repurchase and return) securities within financial liabilities at fair value through profit or loss other than debt securities in issue. The liability is carried at fair value with effects of remeasurement presented as net gains / (losses) arising from trading securities in the consolidated statement of profit or loss.

Investment securities held-to-maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition or upon reclassification from available-for-sale category when the Group changes its intention and has the ability to hold investment securities which were previously classified as available-for-sale to maturity. The investment securities held-to-maturity are carried at amortized cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without need to impose additional restrictions on the sale. Refer to paragraph below on treatment of renegotiations which lead to derecognition of financial assets.

Renegotiated financial assets. From time to time in the normal course of business the Group performs restructuring of financial assets, mostly of loans.

Accounting treatment of renegotiations which do not lead to derecognition of financial assets. If terms of an agreement are not substantially modified, restructuring of financial instruments leads to reassessment of effective interest rate based on current carrying amount and modified future cash flows.

Accounting treatment of renegotiations which lead to derecognition of financial assets. Substantial modifications of agreement terms lead to derecognition of a financial asset and a recognition of a new asset at fair value. The following principal modifications in contractual terms are considered to be substantial:

- Change of currency in which cash flows are denominated;
- Consolidation or separation of several financial instruments;
- Present value of the cash flows under the new terms discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In all cases if the restructuring of financial assets is due to financial difficulties of a borrower, financial assets are assessed for impairment before recognition of a renegotiation.

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included as part of investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment before aggregation. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment and premises other than office premises are stated at cost less accumulated depreciation. Office premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation reserve in equity; all other decreases are charged to profit or loss for the year. Positive revaluation shall be recognized in profit or loss to the extent that it reverses a negative revaluation of the same asset previously recognized in profit or loss. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for office premises included in equity is reclassified directly to retained earnings on a straight-line basis as the asset is used by the Group. On the retirement or disposal of the asset the remaining revaluation reserve is immediately transferred to the retained earnings.

Construction in progress is accounted for based on actual costs, less provision for impairment where required. Upon completion, assets are transferred to corresponding category of Premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

3 Basis of Preparation and Significant Accounting Policies (continued)

Costs of minor current repairs and maintenance are expensed when incurred through consolidated statement of profit or loss. Cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

If impaired, premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in other comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following basic annual rates are applied for the main categories of premises and equipment:

Office premises	2.5-3.3%;
Other premises	2.5%;
Office equipment	14.3%;
Computer equipment	33.3%; and
Vehicles and other equipment	18%.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalized computer software and intangible assets acquired through business combinations (e.g. customer base and brands). Acquired and recognized intangible assets are capitalized on the basis of the costs incurred to acquire and bring to use those assets. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is stated at fair value. Revaluation of investment property is held on each reporting date and recognized in consolidated statement of profit or loss as Other net operating income. Earned rental income is recorded in consolidated statement of profit or loss within other net operating income.

Subsequent expenditure on investment property is capitalized only when it is probable that additional future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

If an investment property becomes occupied by the Group, it is reclassified to the corresponding category of Premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently measured according to the accounting policy provided for such category.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. When assets are leased out under operating lease, the lease payments receivable are recognized as rental income within Other net operating income in the consolidated statement of profit or loss on a straight-line basis over the lease term.

3 Basis of Preparation and Significant Accounting Policies (continued)

Finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the Group is a lessor lease receivables are recognized at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables. The net investment in finance lease is recorded within loans and advances to customers.

Insurance and pension contracts.

Contracts classification. Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

Investment contracts are those contracts that transfer significant financial risk and do not transfer significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Discretionary participation features (DPF). Insurance and investment contracts are classified as ones with DPF or ones without DPF. A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio whose amount or timing is contractually at the discretion of the Group. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders, but not less than defined by the current legislation. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

Description of insurance and pension contracts. The Group issues the following types of life insurance contracts:

Saving life insurance contracts (SLI) are those contracts of life insurance and investment contracts with an option to receive an additional investment return.

Investment life insurance contracts (ILI) are those contracts of life insurance with deposit components and an option to receive an additional investment return. The Group does not account for the deposit component separately and applies the insurance contracts accounting policy for those contracts.

Both ILI and SLI contract are accounted for in line with IFRS 4 *Insurance contracts* and classified as insurance contracts with DPF or insurance contracts without DPF.

The Group also provides following insurance services to corporate customers and individuals: property insurance, job loss insurance, bank cards insurance and foreign travel insurance.

Under pension business activity the Group provides the following types of contracts:

Obligatory pension insurance (OPI) is the activity performed under Federal Law 167-FZ “On obligatory pension insurance in the Russian Federation” of 15 December 2001, which is designed to provide deferred pension. The Group classifies contract under OPI as insurance contracts with DPF and account for those contracts in line with IFRS 4 *Insurance contracts*.

Non-state pension provisions (NSPP) are those contracts of voluntary pension insurance with an option to receive an additional investment return. The Group classifies contracts under NSPP concluded in accordance with existing non-state pension rules either as investment or insurance contracts with DPF and accounts for those contracts in line with IFRS 4 *Insurance contracts*.

3 Basis of Preparation and Significant Accounting Policies (continued)

Insurance and pension contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used.

Liabilities on OPI contracts are determined as accrued contributions less payments, increased by the amount of income received from investing operations on pension contributions.

Investment contract liabilities. Investment contracts are classified as contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Liability is terminated if contract is expired, the contract is either settled or cancelled. Contract carrying value which can be cancelled by policyholder cannot be less than the amount payable to the policyholder in the case of the contract's termination.

Insurance and pension contract liabilities adequacy test. At each reporting date, an assessment is made of whether the recognized insurance and pension liabilities are adequate. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows are used. Any inadequacy is recorded in the consolidated statement of comprehensive income by establishing an additional insurance liability for the remaining loss.

Gross premiums. Gross recurring premiums on insurance and investment contracts with DPF are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date on which the policy is effective.

Gross benefits and claims paid for all insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year and policyholder bonuses declared on DPF contracts. Changes in the gross valuation of insurance and investment contract liabilities with DPF are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Assets and liabilities of the disposal group and non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are disclosed separately in the statement of financial position if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period. Non-current assets held for sale and disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment, investment properties and intangible assets are not depreciated or amortized.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

Due to banks. Amounts due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. Amounts due to banks present non-derivative financial liabilities and are carried at amortized cost.

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative financial liabilities to individuals and corporate customers (including state agencies and state-controlled companies) and are carried at amortized cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, savings certificates and other debt securities issued by the Group. Debt securities in issue except equity linked notes and credit linked notes which are described below are stated at amortized cost. If the Group repurchases its debt securities in issue, they are 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 Other net operating income in the consolidated statement of profit or loss.

Other borrowed funds. Other borrowed funds represent syndicated loans attracted by the Group on financial markets and trade finance deals. Other borrowed funds are carried at amortized cost.

Obligation to deliver securities. Obligation to deliver securities refers to transactions in which the Group sells securities which it does not own, and which it is obligated to deliver at a future date. Such transactions are initially recorded at cost as liabilities and then are carried at fair value. Any unrealized gain or loss is recorded in the consolidated statement of profit or loss in net gains / (losses) arising from trading securities for the difference between the proceeds from the sale and the value of the open short position. The Group realizes a gain or loss when the short position is closed. Valuation of such securities is consistent with the accounting policy of the Group for trading securities.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the respective Group company liquidation. Subordinated debt is carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including forwards and futures contracts, option contracts and swap contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the consolidated statement of profit or loss in net results arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; changes in the fair value of derivative financial instruments on precious metals are included in net results arising from operations with precious metals, precious metals derivatives and precious metals accounts translation; changes in the fair value of derivatives on securities, interest rates and other derivatives – in net results arising from operations with other derivative financial instruments.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and legislation of other jurisdictions in which the Group performs business enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the profit or loss except if it is recognized in other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognized for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognized for temporary differences on initial recognition of goodwill or any other asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Basis of Preparation and Significant Accounting Policies (continued)

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost.

Share premium. Share premium represents the excess of equity contributions over the nominal value of the shares issued.

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the annual shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs is deducted from equity until they are cancelled or disposed of. When such shares are subsequently disposed or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorized for issue are disclosed in the subsequent events note. Dividends are calculated based on the Group IFRS net profit and distributed out from the Bank statutory net results.

Income and expense recognition. Interest income and expense are recorded in profit or loss for interest-bearing instruments on accrual basis using effective interest rate method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful for collection, the base for calculation of interest income is reduced to present value of expected cash inflows and interest income is thereafter recorded based on the asset's original effective interest rate which was used before impairment recognition.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Basis of Preparation and Significant Accounting Policies (continued)

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognized as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions performed by the companies of the Group and from the translation of monetary assets and liabilities into each entity's functional currency are recognized in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (except for the subsidiary bank in Belarus the economy of which was considered hyperinflationary before 2015) are translated into the presentation currency as follows:

- (I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;
- (II) income and expenses for each statement of profit or loss and statement of other comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedure: all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position.

When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in Exchange differences on translating foreign operations in other comprehensive income and taken to a separate component of equity - Foreign currency translation reserve.

Notes to the Consolidated Financial Statements – 31 December 2016

3 Basis of Preparation and Significant Accounting Policies (continued)

At 31 December 2016 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RR	/UAH	/BYN	/KZT	/EUR	/CHF	/TRY
RR/	1.000	0.447	0.032	5.505	0.016	0.017	0.058
USD/	60.657	27.100	1.960	333.946	0.951	1.021	3.526
EUR/	63.811	28.509	2.062	351.311	1.000	1.074	3.709

At 31 December 2015 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RR	/UAH	/BYR	/KZT	/EUR	/CHF	/TRY
RR/	1.000	0.328	256.755	4.648	0.013	0.014	0.040
USD/	72.883	23.925	18,713.014	338.729	0.914	0.991	2.906
EUR/	79.697	26.162	20,462.673	370.400	1.000	1.084	3.178

Assets under management. The Group has set up mutual investment funds and acts as the manager of their assets. The assets of these funds do not represent assets of the Group and therefore are not reported on the consolidated statement of financial position. The management fee income is recorded in the consolidated statement of profit or loss within fee and commission income.

Contingent assets. Contingent assets are assets that could arise from past events and their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognized by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is highly probable.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity in accordance with best banking industry practices. Analysis of assets and liabilities by their expected maturities is presented in Note 34.

Presentation of credit quality. Assessment of the credit quality for cash and cash equivalents, due from banks, trading securities, held to maturity securities, available for sale securities and securities designated as at fair value through profit or loss is based on the ratings of the international rating agencies as follows:

3 Basis of Preparation and Significant Accounting Policies (continued)

Debts denominated in the local currency are assessed on the basis of ratings assigned to debts in local currency. Debts denominated in the foreign currency are assessed on the basis of ratings assigned to debts in foreign currency. In case when the issuer or the issue has been simultaneously assigned investment and speculative ratings by different rating agencies following steps are performed:

- analysis is done on overall number of investment and speculative ratings assigned and simple majority principle is applied;
- if the issuer or the issue is assigned equal number of investment and speculative ratings speculative rating is used for the purpose of the financial statements preparation.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. More details are provided in Note 10.

Starting from the first quarter 2016 the Group introduced several updates in the provision for loan impairment methodology:

- based on the accumulated statistics on the default loans recovery and on the proceeds from collateral sale the Group has refined the approach for collective loans provisioning;
- in respect of the retail and some of the corporate loan portfolios instead of the previously used overdue loans migration models the Group now uses PD models duly adjusted to be in compliance with the incurred loss model.

Developments in the methodology for loan impairment resulted in RR 26.1 billion provision release recognized in the consolidated statement of profit or loss within net provision charge for impairment of debt financial assets for the three months ended 31 March 2016 and for the year ended 31 December 2016.

Also starting from the first quarter 2016 the Group introduced changes in the methodology for provisioning of credit related commitments which made it similar to provisioning methodology for loan impairment.

Implementation of the improved methodology resulted in the additional provision charge of RR 6.9 billion recognized in the consolidated statement of profit or loss within net charge for other provisions for the three months ended 31 March 2016 and for the year ended 31 December 2016.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35.

Deferred income tax asset recognition. The recognized deferred tax asset represents amount of income tax which may be recovered through future income tax expenses and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 31.

Notes to the Consolidated Financial Statements – 31 December 2016

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Fair value of financial instruments. The estimated fair value of financial instruments has been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data adjusted for credit quality of counterparties, however certain areas require Management to make other estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation and certain other jurisdictions where the Group operates continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore sometimes they may not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. Refer to Note 37.

Revaluation of office premises. The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not materially differ from its fair value. Office premises have been revalued to market value as at 31 December 2016. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was mainly market value. The most significant assumptions made during the appraisal included those related to: selection of similar premises; adjustments to market values of similar premises to reflect differences in conditions and location between similar premises and the appraised premises; cash flow projections and discount rates. Revalued premises will be depreciated in accordance with their remaining useful lives since 1 January 2017. Refer to Note 14.

Life insurance contract liabilities (including investment contract liabilities with DPF). The liability for life insurance contracts (including investment contracts with DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on standard industry Russian mortality tables prepared by State Statistic Committee of Russian Federation, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets.

Changes in presentation and reclassifications. During 2016 the Group improved presentation of investments in associates and other liabilities. The effect of changes on the consolidated statement of financial position as at 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	As previously reported	Reclassification	As reclassified
Assets			
Other financial assets	664.5	6.5	671.0
Other non-financial assets	300.3	(6.5)	293.8
Liabilities			
Provisions on insurance and pension fund operations	—	323.6	323.6
Other financial liabilities	718.4	(320.8)	397.6
Other non-financial liabilities	69.6	(2.8)	66.8

Following the improved disclosure of operations on insurance and pension fund activities, the presentation of the comparative figures for the year ended 31 December 2015 has been adjusted to be consistent with the new presentation.

<i>in billions of Russian Roubles</i>	As previously reported	Reclassification	As reclassified
Net premiums from insurance and pension fund operations	216.1	7.2	223.3
Net claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations	(206.9)	(7.2)	(214.1)

Notes to the Consolidated Financial Statements – 31 December 2016

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Following the improved disclosure of interest received on investment securities available-for-sale and investment securities held-to-maturity in the consolidated statement of cash flows, the presentation of comparative figures for the year ended 31 December 2015 has been adjusted to be consistent with the new presentation.

<i>in billions of Russian Roubles</i>	As previously reported	Reclassification	As reclassified
Cash flows from operating activities before changes in operating assets and liabilities			
Interest received	2,220.3	(146.8)	2,073.5
Cash flows from investing activities			
Interest received on investment securities available-for-sale	—	116.5	116.5
Interest received on investment securities held-to-maturity	—	30.3	30.3

Beginning from these consolidated financial statements the Group changed the basis for presentation of economic sector risk concentrations of Loans and advances to customers and Due to corporate customers. For identifying economic sector of the customers the Group turned from presentation of economic sector risk concentrations based on Russian state statistical glossary of economic activities to internal data used for risk management purposes. Comparative information as at 31 December 2015 was changed accordingly. Refer to Notes 10 and 18.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2016.

IFRS 14 Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

Accounting for Acquisitions of Interests - Amendments to IFRS 11 Joint Arrangements (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the annual periods beginning on or after 1 January 2016). The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate premises and equipment and may only be used in very limited circumstances to amortise intangible assets.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as premises and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants remains within the scope of IAS 41.

Notes to the Consolidated Financial Statements – 31 December 2016

5 Adoption of New or Revised Standards and Interpretations (continued)

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in its separate financial statements are required to apply this method from the date of transition to IFRS.

Disclosure Initiative – Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Investment Entities: Applying the Consolidation Exception – Amendment to IFRS 10, IFRS 12 and IAS 28 (These amendments must be applied retrospectively. Issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

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

Improvements to IFRSs 2012-2014 Cycle. (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). They include:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal.** Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016.

Notes to the Consolidated Financial Statements – 31 December 2016

5 Adoption of New or Revised Standards and Interpretations (continued)

- *IFRS 7 Financial Instruments: Disclosures – servicing contracts.* IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The IFRS Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements.* In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In “the effective date and transition for the new accounting method” IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods”. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase ‘and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016.
- *IAS 19 Employee Benefits – regional market issue regarding discount rate.* The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016.
- *IAS 34 Interim Financial Reporting – disclosure of information elsewhere in the interim financial report.* The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The International Accounting Standards Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016.

The above mentioned amended standards effective for the Group from 1 January 2016 did not have a material impact on the accounting policies, financial position or performance of the Group.

6 New Accounting Pronouncements

Certain new standards have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2017 or later periods and which the Group has not early adopted:

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early application permitted). In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVtPL).

6 New Accounting Pronouncements (continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVtPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have a significant impact on classification and measurements of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

IFRS 16 Leases (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17.

6 New Accounting Pronouncements (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued in September 2014 with latest changes on 15 December 2015; effective date is not set). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognize deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Amendments to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

Amendments to IFRS 2 Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognized upon the modification, (c) the equity-settled share-based payment is recognized to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

Amendments to IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches: (i) an overlay approach and (ii) a deferral approach. Insurers will have the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, entities whose activities are predominantly connected with insurance will have an optional temporary exemption from applying IFRS 9 until 2021.

6 New Accounting Pronouncements (continued)

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Group is considering the implications of the above standards and amendments, the impact on the Group and the timing of their adoption by the Group.

Notes to the Consolidated Financial Statements – 31 December 2016

7 Cash and Cash Equivalents

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Cash on hand	626.5	778.1
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	815.7	472.7
Correspondent accounts and placements with other banks:		
- Russian Federation	76.8	21.7
- Other countries	700.9	971.9
Reverse repo agreements	340.9	89.2
Total cash and cash equivalents	2,560.8	2,333.6

As at 31 December 2016 and 31 December 2015 correspondent accounts and placements with banks and reverse repo agreements are represented by balances with original maturities up to 1 business day mainly with the top and well-known foreign and Russian banks, financial companies and corporate customers.

Analysis by credit quality of the correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 1 business day at 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks:				
- Russian Federation	7.4	62.3	7.1	76.8
- Other countries	529.5	26.0	145.4	700.9
Reverse repo agreements	261.6	25.9	53.4	340.9
Total correspondent accounts and placements with banks and reverse repo agreements	798.5	114.2	205.9	1,118.6

Analysis by credit quality of the correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 1 business day at 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks:				
- Russian Federation	10.6	4.1	7.0	21.7
- Other countries	790.1	69.4	112.4	971.9
Reverse repo agreements	50.8	34.7	3.7	89.2
Total correspondent accounts and placements with banks and reverse repo agreements	851.5	108.2	123.1	1,082.8

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

Refer to Note 38 for the information on the fair value of securities received under reverse sale and repurchase agreements classified as cash and cash equivalents.

As at 31 December 2016 and 31 December 2015 all cash and cash equivalents are neither past due nor impaired.

The estimated fair value of cash and cash equivalents and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of cash and cash equivalents are disclosed in Note 34. The information on related parties balances is disclosed in Note 40.

Notes to the Consolidated Financial Statements – 31 December 2016

8 Financial Assets at Fair Value through Profit or Loss

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Trading securities	63.1	86.3
Securities designated as at fair value through profit or loss	335.8	245.7
Derivative financial instruments	206.6	534.8
Total financial assets at fair value through profit or loss	605.5	866.8

The composition of trading securities as at 31 December 2016 and 31 December 2015 is presented below:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Corporate bonds	27.7	47.3
Russian federal loan bonds (OFZ bonds)	17.0	15.6
Russian Federation Eurobonds	9.2	10.7
Foreign government and municipal bonds	3.2	2.8
Russian municipal and subfederal bonds	0.3	0.1
Total debt trading securities	57.4	76.5
Corporate shares	5.4	9.8
Investments in mutual funds	0.3	—
Total trading securities	63.1	86.3

As trading securities are carried at fair value the Group does not analyse or monitor impairment indicators separately for these securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2016 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	3.5	24.2	—	27.7
Russian federal loan bonds (OFZ bonds)	17.0	—	—	17.0
Russian Federation Eurobonds	—	9.2	—	9.2
Foreign government and municipal bonds	2.2	1.0	—	3.2
Russian municipal and subfederal bonds	—	0.3	—	0.3
Total debt trading securities	22.7	34.7	—	57.4

Analysis by credit quality of debt trading securities outstanding at 31 December 2015 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	3.3	41.7	2.3	47.3
Russian federal loan bonds (OFZ bonds)	15.6	—	—	15.6
Russian Federation Eurobonds	—	10.7	—	10.7
Foreign government and municipal bonds	1.1	1.7	—	2.8
Russian municipal and subfederal bonds	—	0.1	—	0.1
Total debt trading securities	20.0	54.2	2.3	76.5

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

Notes to the Consolidated Financial Statements – 31 December 2016

8 Financial Assets at Fair Value through Profit or Loss (continued)

The composition of securities designated as at fair value through profit or loss as at 31 December 2016 and 31 December 2015 is presented below:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Corporate bonds	237.5	186.0
Russian federal loan bonds (OFZ bonds)	55.8	24.7
Russian municipal and subfederal bonds	7.3	7.9
Foreign government and municipal bonds	2.4	0.5
Russian Federation Eurobonds	0.5	0.6
Total debt securities designated as at fair value through profit or loss	303.5	219.7
Corporate shares	20.4	20.8
Investments in mutual funds	11.9	5.2
Total securities designated as at fair value through profit or loss	335.8	245.7

Analysis by credit quality of debt securities designated as at fair value through profit or loss outstanding at 31 December 2016 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	63.7	173.8	—	237.5
Russian federal loan bonds (OFZ bonds)	55.8	—	—	55.8
Russian municipal and subfederal bonds	1.2	6.1	—	7.3
Foreign government and municipal bonds	—	2.4	—	2.4
Russian Federation Eurobonds	—	0.5	—	0.5
Total debt securities designated as at fair value through profit or loss	120.7	182.8	—	303.5

Analysis by credit quality of debt securities designated as at fair value through profit or loss outstanding at 31 December 2015 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	57.3	125.7	3.0	186.0
Russian federal loan bonds (OFZ bonds)	24.7	—	—	24.7
Russian municipal and subfederal bonds	0.4	7.5	—	7.9
Russian Federation Eurobonds	—	0.6	—	0.6
Foreign government and municipal bonds	—	0.5	—	0.5
Total debt securities designated as at fair value through profit or loss	82.4	134.3	3.0	219.7

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

At 31 December 2016 and 31 December 2015 there are no restructured balances that would otherwise be past due. Trading debt securities and debt securities designated as at fair value through profit or loss are not collateralized. All trading debt securities and debt securities designated as at fair value through profit or loss are not past due.

The information on trading securities and securities designated as at fair value through profit or loss issued by state-controlled entities is disclosed in Note 41.

Notes to the Consolidated Financial Statements – 31 December 2016

8 Financial Assets at Fair Value through Profit or Loss (continued)

The composition of derivative financial instruments as at 31 December 2016 and 31 December 2015 is presented below:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Foreign currency interest rate derivatives	107.3	312.9
Foreign currency derivatives	51.2	121.3
Interest rate derivatives	26.8	48.0
Commodity derivatives including precious metals derivatives	10.8	43.0
Equity securities derivatives	5.5	1.6
Debt securities derivatives	4.0	1.7
Credit risk derivatives	1.0	6.3
Total derivative financial instruments	206.6	534.8

For the detailed analysis of the derivative instruments of the Group refer to Note 36.

Currency and maturity analyses of financial assets at fair value through profit or loss are disclosed in Note 34.

9 Due from Banks

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Term placements with banks		
- Russian Federation	308.9	159.3
- Other countries	203.1	373.9
Reverse repo agreements with banks	456.0	217.4
Total due from banks before provision for impairment	968.0	750.6
Less provision for impairment	(2.6)	—
Total due from banks after provision for impairment	965.4	750.6

As at 31 December 2016 and 31 December 2015 term placements with banks and reverse repo agreements are represented by balances with original maturities over 1 business day mainly with the top and well-known foreign and Russian banks.

The changes in provision for impairment of due from banks for the year ended 31 December 2016 and 31 December 2015 are presented in the table below:

<i>in billions of Russian Roubles</i>	2016	2015
Provision for impairment of due from banks as at 1 January	—	—
Net provision charge for impairment during the year	2.6	—
Provision for impairment of due from banks as at 31 December	2.6	—

Notes to the Consolidated Financial Statements – 31 December 2016

9 Due from Banks (continued)

Analysis by credit quality of the term placements with banks and reverse repo agreements with original maturities over 1 business day at 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Term placements with banks:				
- Russian Federation	15.7	289.4	3.8	308.9
- Other countries	115.9	44.6	42.6	203.1
Reverse repo agreements with banks	363.3	88.5	4.2	456.0
Total due from banks before provision for impairment	494.9	422.5	50.6	968.0

Analysis by credit quality of the term placements with banks and reverse repo agreements with original maturities over 1 business day at 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Term placements with banks:				
- Russian Federation	2.9	154.6	1.8	159.3
- Other countries	325.5	45.9	2.5	373.9
Reverse repo agreements with banks	81.9	135.4	0.1	217.4
Total due from banks before provision for impairment	410.3	335.9	4.4	750.6

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2016 and 31 December 2015 all term placements with banks and reverse repo agreements are neither past due nor impaired.

Refer to Note 38 for the information on amounts due from banks which are collateralized by securities received under reverse sale and repurchase agreements.

The estimated fair value of due from banks and reverse repo agreements and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of due from banks are disclosed in Note 34. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 40 and 41.

10 Loans and Advances to Customers

<i>in billions of Russian Roubles</i>	31 December 2016		
	Not past due loans	Past due loans	Total
Commercial loans to legal entities	9,346.0	570.0	9,916.0
Specialized loans to legal entities	3,491.7	225.3	3,717.0
Mortgage loans to individuals	2,629.7	121.2	2,750.9
Consumer and other loans to individuals	1,420.5	153.6	1,574.1
Credit cards and overdrafts to individuals	500.3	86.6	586.9
Car loans to individuals	103.3	16.5	119.8
Total loans and advances to customers before provision for loan impairment	17,491.5	1,173.2	18,664.7
Less: Provision for loan impairment	(586.5)	(716.9)	(1,303.4)
Total loans and advances to customers net of provision for loan impairment	16,905.0	456.3	17,361.3

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

<i>in billions of Russian Roubles</i>	31 December 2015		
	Not past due loans	Past due loans	Total
Commercial loans to legal entities	9,640.7	727.3	10,368.0
Specialized loans to legal entities	4,310.4	280.3	4,590.7
Mortgage loans to individuals	2,431.1	123.5	2,554.6
Consumer and other loans to individuals	1,489.2	192.6	1,681.8
Credit cards and overdrafts to individuals	491.1	96.1	587.2
Car loans to individuals	124.0	18.0	142.0
Total loans and advances to customers before provision for loan impairment	18,486.5	1,437.8	19,924.3
Less: Provision for loan impairment	(321.0)	(875.5)	(1,196.5)
Total loans and advances to customers net of provision for loan impairment	18,165.5	562.3	18,727.8

For the purposes of these consolidated financial statements a loan is considered past due when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognized as past due.

Commercial loans to legal entities comprise corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property), portfolio investments, expansion and consolidation of business, etc. Majority of commercial loans are provided for periods up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialized loans to legal entities include investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans and credit cards and overdrafts. These loans include loans for current needs.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by real estate.

Credit cards and overdrafts to individuals represent revolving credit lines. These loans are considered a comfortable instrument for customers as a reserve source of funds in case of need available everywhere and anytime. Interest rates for such loans are higher than for consumer loans as they carry higher risks for the Group.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for up to 5 years periods.

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Loans not past due	8,717.3	(169.5)	8,547.8	1.9%
Loans up to 30 days overdue	61.3	(9.7)	51.6	15.8%
Loans 31 to 60 days overdue	23.2	(7.5)	15.7	32.3%
Loans 61 to 90 days overdue	21.2	(4.9)	16.3	23.1%
Loans 91 to 180 days overdue	21.0	(9.8)	11.2	46.7%
Loans over 180 days overdue	211.8	(170.0)	41.8	80.3%
Total collectively assessed loans	9,055.8	(371.4)	8,684.4	4.1%
Individually impaired				
Loans not past due	628.7	(180.2)	448.5	28.7%
Loans up to 30 days overdue	24.1	(15.6)	8.5	64.7%
Loans 31 to 60 days overdue	12.7	(4.9)	7.8	38.6%
Loans 61 to 90 days overdue	2.5	(1.9)	0.6	76.0%
Loans 91 to 180 days overdue	13.5	(12.0)	1.5	88.9%
Loans over 180 days overdue	178.7	(162.9)	15.8	91.2%
Total individually impaired loans	860.2	(377.5)	482.7	43.9%
Total commercial loans to legal entities	9,916.0	(748.9)	9,167.1	7.6%
Specialized loans to legal entities				
Collectively assessed				
Loans not past due	3,244.3	(125.0)	3,119.3	3.9%
Loans up to 30 days overdue	16.1	(5.1)	11.0	31.7%
Loans 31 to 60 days overdue	5.2	(1.7)	3.5	32.7%
Loans 61 to 90 days overdue	20.7	(3.7)	17.0	17.9%
Loans 91 to 180 days overdue	5.7	(3.4)	2.3	59.6%
Loans over 180 days overdue	91.8	(36.0)	55.8	39.2%
Total collectively assessed loans	3,383.8	(174.9)	3,208.9	5.2%
Individually impaired				
Loans not past due	247.4	(76.9)	170.5	31.1%
Loans up to 30 days overdue	16.0	(4.0)	12.0	25.0%
Loans 31 to 60 days overdue	0.6	(0.1)	0.5	16.7%
Loans 61 to 90 days overdue	0.6	(0.3)	0.3	50.0%
Loans 91 to 180 days overdue	5.7	(5.5)	0.2	96.5%
Loans over 180 days overdue	62.9	(48.7)	14.2	77.4%
Total individually impaired loans	333.2	(135.5)	197.7	40.7%
Total specialized loans to legal entities	3,717.0	(310.4)	3,406.6	8.4%
Total loans to legal entities	13,633.0	(1,059.3)	12,573.7	7.8%

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Mortgage loans to individuals				
Collectively assessed				
Loans not past due	2,629.7	(5.6)	2,624.1	0.2%
Loans up to 30 days overdue	42.3	(1.5)	40.8	3.5%
Loans 31 to 60 days overdue	12.8	(1.9)	10.9	14.8%
Loans 61 to 90 days overdue	5.2	(0.8)	4.4	15.4%
Loans 91 to 180 days overdue	7.2	(2.0)	5.2	27.8%
Loans over 180 days overdue	53.7	(34.8)	18.9	64.8%
Total mortgage loans to individuals	2,750.9	(46.6)	2,704.3	1.7%
Consumer and other loans to individuals				
Collectively assessed				
Loans not past due	1,420.5	(24.4)	1,396.1	1.7%
Loans up to 30 days overdue	30.2	(4.9)	25.3	16.2%
Loans 31 to 60 days overdue	10.2	(4.1)	6.1	40.2%
Loans 61 to 90 days overdue	6.1	(2.8)	3.3	45.9%
Loans 91 to 180 days overdue	11.8	(8.4)	3.4	71.2%
Loans over 180 days overdue	95.3	(85.7)	9.6	89.9%
Total consumer and other loans to individuals	1,574.1	(130.3)	1,443.8	8.3%
Credit cards and overdrafts to individuals				
Collectively assessed				
Loans not past due	500.3	(4.7)	495.6	0.9%
Loans up to 30 days overdue	22.2	(1.5)	20.7	6.8%
Loans 31 to 60 days overdue	4.7	(1.6)	3.1	34.0%
Loans 61 to 90 days overdue	2.9	(1.4)	1.5	48.3%
Loans 91 to 180 days overdue	6.0	(4.3)	1.7	71.7%
Loans over 180 days overdue	50.8	(43.0)	7.8	84.6%
Total credit cards and overdrafts to individuals	586.9	(56.5)	530.4	9.6%
Car loans to individuals				
Collectively assessed				
Loans not past due	103.3	(0.2)	103.1	0.2%
Loans up to 30 days overdue	2.4	(0.1)	2.3	4.2%
Loans 31 to 60 days overdue	1.0	(0.2)	0.8	20.0%
Loans 61 to 90 days overdue	0.6	(0.2)	0.4	33.3%
Loans 91 to 180 days overdue	1.2	(0.8)	0.4	66.7%
Loans over 180 days overdue	11.3	(9.2)	2.1	81.4%
Total car loans to individuals	119.8	(10.7)	109.1	8.9%
Total loans to individuals	5,031.7	(244.1)	4,787.6	4.9%
Total loans and advances to customers as at 31 December 2016	18,664.7	(1,303.4)	17,361.3	7.0%

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Loans not past due	9,196.5	(103.0)	9,093.5	1.1%
Loans up to 30 days overdue	68.2	(8.2)	60.0	12.0%
Loans 31 to 60 days overdue	28.0	(6.2)	21.8	22.1%
Loans 61 to 90 days overdue	13.6	(5.2)	8.4	38.2%
Loans 91 to 180 days overdue	37.9	(20.7)	17.2	54.6%
Loans over 180 days overdue	202.2	(180.2)	22.0	89.1%
Total collectively assessed loans	9,546.4	(323.5)	9,222.9	3.4%
Individually impaired				
Loans not past due	444.2	(100.6)	343.6	22.6%
Loans up to 30 days overdue	16.4	(7.1)	9.3	43.3%
Loans 31 to 60 days overdue	16.4	(8.3)	8.1	50.6%
Loans 61 to 90 days overdue	11.8	(4.1)	7.7	34.7%
Loans 91 to 180 days overdue	53.9	(41.1)	12.8	76.3%
Loans over 180 days overdue	278.9	(211.5)	67.4	75.8%
Total individually impaired loans	821.6	(372.7)	448.9	45.4%
Total commercial loans to legal entities	10,368.0	(696.2)	9,671.8	6.7%
Specialized loans to legal entities				
Collectively assessed				
Loans not past due	4,094.0	(70.5)	4,023.5	1.7%
Loans up to 30 days overdue	58.5	(3.4)	55.1	5.8%
Loans 31 to 60 days overdue	19.9	(3.5)	16.4	17.6%
Loans 61 to 90 days overdue	21.7	(5.9)	15.8	27.2%
Loans 91 to 180 days overdue	3.1	(0.9)	2.2	29.0%
Loans over 180 days overdue	64.4	(38.6)	25.8	59.9%
Total collectively assessed loans	4,261.6	(122.8)	4,138.8	2.9%
Individually impaired				
Loans not past due	216.4	(34.4)	182.0	15.9%
Loans up to 30 days overdue	9.1	(4.8)	4.3	52.7%
Loans 31 to 60 days overdue	14.6	(10.1)	4.5	69.2%
Loans 61 to 90 days overdue	3.2	(1.1)	2.1	34.4%
Loans 91 to 180 days overdue	13.1	(7.5)	5.6	57.3%
Loans over 180 days overdue	72.7	(56.2)	16.5	77.3%
Total individually impaired loans	329.1	(114.1)	215.0	34.7%
Total specialized loans to legal entities	4,590.7	(236.9)	4,353.8	5.2%
Total loans to legal entities	14,958.7	(933.1)	14,025.6	6.2%

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Mortgage loans to individuals				
Collectively assessed				
Loans not past due	2,431.1	(1.5)	2,429.6	0.1%
Loans up to 30 days overdue	42.4	(1.4)	41.0	3.3%
Loans 31 to 60 days overdue	12.0	(1.6)	10.4	13.3%
Loans 61 to 90 days overdue	5.0	(1.1)	3.9	22.0%
Loans 91 to 180 days overdue	9.4	(4.2)	5.2	44.7%
Loans over 180 days overdue	54.7	(47.5)	7.2	86.8%
Total mortgage loans to individuals	2,554.6	(57.3)	2,497.3	2.2%
Consumer and other loans to individuals				
Collectively assessed				
Loans not past due	1,489.2	(7.9)	1,481.3	0.5%
Loans up to 30 days overdue	38.7	(4.0)	34.7	10.3%
Loans 31 to 60 days overdue	13.1	(4.4)	8.7	33.6%
Loans 61 to 90 days overdue	8.1	(3.8)	4.3	46.9%
Loans 91 to 180 days overdue	19.6	(13.1)	6.5	66.8%
Loans over 180 days overdue	113.1	(102.1)	11.0	90.3%
Total consumer and other loans to individuals	1,681.8	(135.3)	1,546.5	8.0%
Credit cards and overdrafts to individuals				
Collectively assessed				
Loans not past due	491.1	(2.9)	488.2	0.6%
Loans up to 30 days overdue	27.9	(1.8)	26.1	6.5%
Loans 31 to 60 days overdue	6.5	(1.9)	4.6	29.2%
Loans 61 to 90 days overdue	4.0	(2.2)	1.8	55.0%
Loans 91 to 180 days overdue	9.8	(6.7)	3.1	68.4%
Loans over 180 days overdue	47.9	(43.1)	4.8	90.0%
Total credit cards and overdrafts to individuals	587.2	(58.6)	528.6	10.0%
Car loans to individuals				
Collectively assessed				
Loans not past due	124.0	(0.2)	123.8	0.2%
Loans up to 30 days overdue	3.3	(0.3)	3.0	9.1%
Loans 31 to 60 days overdue	1.4	(0.4)	1.0	28.6%
Loans 61 to 90 days overdue	0.9	(0.4)	0.5	44.4%
Loans 91 to 180 days overdue	2.0	(1.3)	0.7	65.0%
Loans over 180 days overdue	10.4	(9.6)	0.8	92.3%
Total car loans to individuals	142.0	(12.2)	129.8	8.6%
Total loans to individuals	4,965.6	(263.4)	4,702.2	5.3%
Total loans and advances to customers as at 31 December 2015	19,924.3	(1,196.5)	18,727.8	6.0%

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Group 1	Group 2	Group 3	Total
Commercial loans to legal entities	1,081.8	3,774.2	3,861.3	8,717.3
Specialized loans to legal entities	201.5	1,266.7	1,776.1	3,244.3
Mortgage loans to individuals	80.4	2,533.8	15.5	2,629.7
Consumer and other loans to individuals	86.4	1,286.6	47.5	1,420.5
Credit cards and overdrafts to individuals	25.7	441.9	32.7	500.3
Car loans to individuals	86.8	14.9	1.6	103.3
Total not past due collectively assessed loans before provision for loan impairment as at 31 December 2016	1,562.6	9,318.1	5,734.7	16,615.4

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Group 1	Group 2	Group 3	Total
Commercial loans to legal entities	1,721.3	3,941.2	3,534.0	9,196.5
Specialized loans to legal entities	403.9	1,513.4	2,176.7	4,094.0
Mortgage loans to individuals	117.7	2,292.6	20.8	2,431.1
Consumer and other loans to individuals	111.0	1,325.2	53.0	1,489.2
Credit cards and overdrafts to individuals	33.1	419.3	38.7	491.1
Car loans to individuals	87.2	34.2	2.6	124.0
Total not past due collectively assessed loans before provision for loan impairment as at 31 December 2015	2,474.2	9,525.9	5,825.8	17,825.9

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with Group 1 loans being of the highest quality. The Group 1 includes borrowers with high level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The Group 2 includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The Group 3 includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as higher than moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The Group 1 of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The Group 2 is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The Group 3 is represented by loans with average debt servicing and moderate financial position of a borrower.

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

As defined by the Group for the purposes of internal credit risk assessment, loans fall into the “non-performing” category when a principal and/or interest payment becomes more than 90 days overdue.

As at 31 December 2016 the outstanding non-performing loans were as follows:

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	425.0	(354.7)	70.3	83.5%
Specialized loans to legal entities	166.1	(93.6)	72.5	56.4%
Mortgage loans to individuals	60.9	(36.8)	24.1	60.4%
Consumer and other loans to individuals	107.1	(94.1)	13.0	87.9%
Credit cards and overdrafts to individuals	56.8	(47.3)	9.5	83.3%
Car loans to individuals	12.5	(10.0)	2.5	80.0%
Total non-performing loans and advances to customers as at 31 December 2016	828.4	(636.5)	191.9	76.8%

As at 31 December 2015 the outstanding non-performing loans were as follows:

<i>in billions of Russian Roubles</i>	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	572.9	(453.5)	119.4	79.2%
Specialized loans to legal entities	153.3	(103.2)	50.1	67.3%
Mortgage loans to individuals	64.1	(51.7)	12.4	80.7%
Consumer and other loans to individuals	132.7	(115.2)	17.5	86.8%
Credit cards and overdrafts to individuals	57.7	(49.8)	7.9	86.3%
Car loans to individuals	12.4	(10.9)	1.5	87.9%
Total non-performing loans and advances to customers as at 31 December 2015	993.1	(784.3)	208.8	79.0%

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

Provisions for loan impairment. The analysis of changes in provision for loan impairment for the year ended 31 December 2016 is presented in the table below:

<i>in billions of Russian Roubles</i>	Commercial loans to legal entities	Specialized loans to legal entities	Mortgage loans to individuals	Consumer and other loans to individuals	Credit cards and overdrafts to individuals	Car loans to individuals	Total
Provision for loan impairment as at 31 December 2015	696.2	236.9	57.3	135.3	58.6	12.2	1,196.5
Net provision charge / (recovery of provision) for loan impairment during the year	181.9	95.7	(6.7)	58.0	14.1	(0.6)	342.4
Recovery of loans previously written off	1.3	1.0	0.4	1.9	0.9	—	5.5
Loans and advances to customers written off during the year	(85.9)	(16.2)	(1.0)	(57.9)	(13.5)	(0.6)	(175.1)
Disposal of subsidiaries and transfers to assets held for sale	(0.3)	(0.4)	(0.1)	(0.2)	—	—	(1.0)
Exchange differences on translating foreign operations	(44.3)	(6.6)	(3.3)	(6.8)	(3.6)	(0.3)	(64.9)
Provision for loan impairment as at 31 December 2016	748.9	310.4	46.6	130.3	56.5	10.7	1,303.4

The analysis of changes in provision for loan impairment for the year ended 31 December 2015 is presented in the table below:

<i>in billions of Russian Roubles</i>	Commercial loans to legal entities	Specialized loans to legal entities	Mortgage loans to individuals	Consumer and other loans to individuals	Credit cards and overdrafts to individuals	Car loans to individuals	Total
Provision for loan impairment as at 31 December 2014	456.4	221.4	39.6	105.6	38.2	8.3	869.5
Net provision charge for loan impairment during the year	325.4	44.1	20.1	53.7	25.7	4.1	473.1
Recovery of loans previously written off	1.3	0.6	3.6	1.7	—	0.6	7.8
Loans and advances to customers written off during the year	(82.4)	(26.1)	(4.9)	(25.9)	(5.8)	(1.0)	(146.1)
Disposal of subsidiaries and transfers to assets held for sale	(2.9)	(3.2)	(0.5)	(0.3)	(0.1)	—	(7.0)
Exchange differences on translating foreign operations	(1.6)	0.1	(0.6)	0.5	0.6	0.2	(0.8)
Provision for loan impairment as at 31 December 2015	696.2	236.9	57.3	135.3	58.6	12.2	1,196.5

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

Restructured loans. The Group has refined the presentation of restructured loans disclosure.

Renegotiated loan portfolio of the Group consists of “modified” and “restructured” loans. A loan is considered renegotiated if terms of the original loan contract have been changed.

Modified loans represent loans with changes to the initial loan terms caused by changes in market conditions, changes in a product, client requests or reclassified out of the restructured loan portfolio provided reclassifications terms are met, i.e. where loan renegotiation is not considered as distressed.

Restructured loans represent loans which were distressed at the moment of the renegotiation. A loan is initially classified as a restructured loan if:

- The renegotiation is in favor of a borrower due to its inability to fulfill obligations and the borrower is assigned high / medium credit risk. Renegotiation is considered to be in favor of the borrower if, for example, frequency of loan repayments is reduced, interest rate is reduced, loan tenor or limit are extended, amount of total loan payments is reduced, loan payments are rescheduled for later dates, etc., or
- Refinancing of a loan is due to inability of the borrower to fulfill its obligations and the borrower is assigned high / medium credit risk.

Features of a high / medium credit risk borrower which are examined by the Group may include but are not limited to the following: the borrower’s obligations are overdue for a period of more than 30 calendar days, non-compliance with a loan collateralization requirements by 30%, initiation of bankruptcy proceeding in respect of the borrower, change / replacement of the key management and/or owners, etc.

Information on restructured loans as 31 December 2016 is presented in the table below.

<i>in billions of Russian Roubles</i>	Commercial loans to legal entities	Specialized loans to legal entities	Mortgage loans to individuals	Consumer and other loans to individuals	Credit cards and overdrafts to individuals	Car loans to individuals	Total
Loans not past due	488.8	170.8	108.3	37.4	—	3.6	808.9
Loans up to 30 days overdue	37.2	15.2	10.2	4.1	—	1.2	67.9
Loans 31 to 60 days overdue	15.6	1.0	4.2	2.9	—	0.5	24.2
Loans 61 to 90 days overdue	7.3	5.6	1.8	2.0	—	0.3	17.0
Loans 91 to 180 days overdue	12.4	9.1	3.0	3.9	—	0.6	29.0
Loans over 180 days overdue	163.7	54.7	18.4	20.7	0.2	4.4	262.1
Total restructured loans before provision for loan impairment	725.0	256.4	145.9	71.0	0.2	10.6	1,209.1
Less provision for loan impairment	(326.5)	(134.0)	(15.9)	(25.3)	(0.2)	(4.2)	(506.1)
Total restructured loans after provision for loan impairment as at 31 December 2016	398.5	122.4	130.0	45.7	—	6.4	703.0

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

Information on restructured loans as at 31 December 2015 is presented in the table below.

<i>in billions of Russian Roubles</i>	Commercial loans to legal entities	Specialized loans to legal entities	Mortgage loans to individuals	Consumer and other loans to individuals	Credit cards and overdrafts to individuals	Car loans to individuals	Total
Loans not past due	309.5	352.0	73.6	22.0	—	4.6	761.7
Loans up to 30 days overdue	20.1	8.9	9.1	2.6	—	1.5	42.2
Loans 31 to 60 days overdue	13.4	7.4	3.5	1.7	—	0.7	26.7
Loans 61 to 90 days overdue	8.1	20.5	1.7	1.4	—	0.4	32.1
Loans 91 to 180 days overdue	44.8	10.8	2.9	3.9	—	0.9	63.3
Loans over 180 days overdue	206.2	62.4	16.4	16.0	0.3	3.9	305.2
Total restructured loans before provision for loan impairment	602.1	462.0	107.2	47.6	0.3	12.0	1,231.2
Less provision for loan impairment	(240.4)	(97.2)	(19.5)	(18.5)	(0.3)	(5.1)	(381.0)
Total restructured loans after provision for loan impairment as at 31 December 2015	361.7	364.8	87.7	29.1	—	6.9	850.2

A loan may be reclassified out of the restructured loans category (and classified as modified) when all of the following criteria are met:

- the borrower has repaid not less than 5% of the loan principle balance (except for the borrowers in the investment stage of construction projects where execution of any six contractual payments is monitored);
- the borrower performed all of its contractual obligations for at least six months after the renegotiation; and
- no other signs of impairment are identified during the period of at least six months after the renegotiation.

Investments in finance lease. Included in specialized loans to legal entities are net investments in finance leases.

The contractual maturity analysis of net investments in finance leases as at 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Gross investment in finance leases	Unearned future finance income on finance lease	Net investment in finance leases before provision for impairment	Provision for impairment	Net investment in finance leases after provision for impairment
Within 1 year	53.0	(5.3)	47.7	(1.5)	46.2
From 1 to 5 years	141.8	(38.4)	103.4	(2.9)	100.5
More than 5 years	92.2	(38.9)	53.3	(1.2)	52.1
Overdue	13.1	—	13.1	(5.6)	7.5
Total net investments in finance leases as at 31 December 2016	300.1	(82.6)	217.5	(11.2)	206.3

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

The contractual maturity analysis of net investments in finance leases as at 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Gross investment in finance leases	Unearned future finance income on finance lease	Net investment in finance leases before provision for impairment	Provision for impairment	Net investment in finance leases after provision for impairment
Within 1 year	55.7	(5.7)	50.0	(1.9)	48.1
From 1 to 5 years	162.0	(46.3)	115.7	(3.2)	112.5
More than 5 years	96.3	(42.8)	53.5	(1.1)	52.4
Overdue	14.0	—	14.0	(5.2)	8.8
Total net investments in finance leases as at 31 December 2015	328.0	(94.8)	233.2	(11.4)	221.8

Economic sector risk concentration. Economic sector risk concentrations within Loans and advances to customers of the Group are as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Amount	%	Amount	%
Individuals	5,031.7	27.0	4,965.6	24.9
Metallurgy	1,541.1	8.3	1,383.6	6.9
Real estate	1,512.0	8.1	1,787.9	9.0
Oil and gas	1,446.9	7.8	1,592.0	8.0
Trade	1,308.8	7.0	1,352.1	6.8
Food and agriculture	1,087.4	5.8	1,100.6	5.5
Energy	903.1	4.8	1,013.1	5.1
Machinery	885.3	4.7	1,289.2	6.5
Government and municipal bodies	807.1	4.3	894.0	4.5
Construction	753.1	4.0	824.7	4.1
Telecommunications	730.1	3.9	781.4	3.9
Services	712.3	3.8	817.0	4.1
Transport, aviation, space industry	564.4	3.0	706.8	3.5
Chemical industry	561.1	3.0	521.3	2.6
Timber industry	85.2	0.5	84.1	0.4
Other	735.1	4.0	810.9	4.2
Total loans and advances to customers before provision for loan impairment	18,664.7	100.0	19,924.3	100.0

For description of the basis of presentation of economic sector risk concentrations of Loans and advances to customers refer to Note 4.

Refer to Note 38 for the information on amounts in loans and advances to customers which are collateralized by securities received under reverse sale and repurchase agreements and loans transferred without derecognition.

As at 31 December 2016 the Group had 20 largest groups of related corporate borrowers with aggregated loan amounts due from each of these groups exceeding RR 116.3 billion (31 December 2015: 20 largest groups of related corporate borrowers with loan amounts due from each of these groups exceeding RR 120.8 billion). The total aggregate amount of these loans was RR 4,389.0 billion or 23.5% of the total gross loan portfolio of the Group (31 December 2015: RR 4,557.5 billion or 22.9%).

Interest income on loans, for which individual impairment has been recognized, for the year ended 31 December 2016, comprised RR 55.3 billion (31 December 2015: RR 52.6 billion).

In interest income on loans and advances to customers in the consolidated statement of profit or loss are included fines and penalties received from borrowers in the amount of RR 21.0 billion (31 December 2015: RR 23.1 billion).

Notes to the Consolidated Financial Statements – 31 December 2016

10 Loans and Advances to Customers (continued)

The estimated fair value of loans and advances to customers and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of loans and advances to customers are disclosed in Note 34. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 40 and 41.

11 Securities Pledged under Repurchase Agreements

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Trading securities pledged under repurchase agreements		
Corporate bonds	0.3	—
Russian federal loan bonds (OFZ bonds)	0.1	—
Corporate shares	—	0.3
Total trading securities pledged under repurchase agreements	0.4	0.3
Investment securities available-for-sale pledged under repurchase agreements		
Foreign government and municipal bonds	66.4	124.9
Russian federal loan bonds (OFZ bonds)	14.3	24.4
Russian Federation Eurobonds	0.2	—
Total investment securities available-for-sale pledged under repurchase agreements	80.9	149.3
Investment securities held-to-maturity pledged under repurchase agreements		
Foreign government and municipal bonds	30.9	40.0
Russian federal loan bonds (OFZ bonds)	1.7	32.4
Total investment securities held-to-maturity pledged under repurchase agreements	32.6	72.4
Total securities pledged under repurchase agreements	113.9	222.0

Refer to Note 38 for more information on securities pledged under repurchase agreements with banks and corporate customers.

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2016 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Foreign government and municipal bonds	96.8	0.5	—	97.3
Russian federal loan bonds (OFZ bonds)	16.1	—	—	16.1
Corporate bonds	0.3	—	—	0.3
Russian Federation Eurobonds	—	0.2	—	0.2
Total debt securities pledged under repurchase agreements	113.2	0.7	—	113.9

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2015 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Foreign government and municipal bonds	164.9	—	—	164.9
Russian federal loan bonds (OFZ bonds)	56.8	—	—	56.8
Total debt securities pledged under repurchase agreements	221.7	—	—	221.7

Notes to the Consolidated Financial Statements – 31 December 2016

11 Securities Pledged under Repurchase Agreements (continued)

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

All corporate bonds pledged under repurchase agreements are not past due. None of the securities pledged under repurchase agreements were restructured.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 34. The information on securities issued by state-controlled entities is disclosed in Note 41.

12 Investment Securities Available-for-Sale

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Russian federal loan bonds (OFZ bonds)	763.8	639.6
Corporate bonds	406.1	682.5
Russian Federation Eurobonds	234.1	281.2
Foreign government and municipal bonds	187.3	200.2
Russian municipal and subfederal bonds	22.0	45.1
Promissory notes	0.4	0.4
Total debt investment securities available-for-sale	1,613.7	1,849.0
Corporate shares	45.2	25.3
Total investment securities available-for-sale	1,658.9	1,874.3

At 31 December 2016 and 31 December 2015 there were no restructured debt investment securities available-for-sale that would otherwise be past due. All debt investment securities available-for-sale are not past due.

Analysis by credit quality of debt investment securities available-for-sale outstanding at 31 December 2016 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Russian federal loan bonds (OFZ bonds)	763.8	—	—	763.8
Corporate bonds	142.6	262.0	1.5	406.1
Russian Federation Eurobonds	—	234.1	—	234.1
Foreign government and municipal bonds	99.7	56.7	30.9	187.3
Russian municipal and subfederal bonds	1.4	20.6	—	22.0
Promissory notes	—	—	0.4	0.4
Total debt investment securities available-for-sale	1,007.5	573.4	32.8	1,613.7

Analysis by credit quality of debt investment securities available-for-sale outstanding at 31 December 2015 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	353.9	287.3	41.3	682.5
Russian federal loan bonds (OFZ bonds)	639.6	—	—	639.6
Russian Federation Eurobonds	—	281.2	—	281.2
Foreign government and municipal bonds	138.7	61.5	—	200.2
Russian municipal and subfederal bonds	—	42.6	2.5	45.1
Promissory notes	—	—	0.4	0.4
Total debt investment securities available-for-sale	1,132.2	672.6	44.2	1,849.0

Notes to the Consolidated Financial Statements – 31 December 2016

12 Investment Securities Available-for-Sale (continued)

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

The estimated fair value of investment securities available-for-sale and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of investment securities available-for-sale are disclosed in Note 34. The information on securities issued by state-controlled entities is disclosed in Note 41.

13 Investment Securities Held-to-Maturity

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Corporate bonds	243.2	247.6
Russian federal loan bonds (OFZ bonds)	166.4	135.5
Foreign government and municipal bonds	58.4	44.6
Russian municipal and subfederal bonds	49.1	23.3
Russian Federation Eurobonds	29.6	33.2
Total investment securities held-to-maturity before provision for impairment	546.7	484.2
Less provision for impairment	(0.9)	(6.5)
Total investment securities held-to-maturity after provision for impairment	545.8	477.7

The changes in provision for impairment of investment securities held-to-maturity for the year ended 31 December 2016 and 31 December 2015 are presented below:

<i>in billions of Russian Roubles</i>	2016	2015
Provision for impairment of investment securities held-to-maturity as at 1 January	6.5	4.4
Net (recovery of provision) / provision charge for impairment during the year	(2.6)	2.1
Investment securities held-to-maturity written off during the year	(3.0)	—
Provision for impairment of investment securities held-to-maturity as at 31 December	0.9	6.5

Analysis by credit quality of debt investment securities held-to-maturity outstanding at 31 December 2016 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	37.6	192.1	13.5	243.2
Russian federal loan bonds (OFZ bonds)	166.4	—	—	166.4
Foreign government and municipal bonds	57.1	0.6	0.7	58.4
Russian municipal and subfederal bonds	8.3	38.7	2.1	49.1
Russian Federation Eurobonds	—	29.6	—	29.6
Total investment securities held-to-maturity before provision for impairment	269.4	261.0	16.3	546.7

Notes to the Consolidated Financial Statements – 31 December 2016

13 Investment Securities Held-to-Maturity (continued)

Analysis by credit quality of debt investment securities held-to-maturity outstanding at 31 December 2015 is as follows:

<i>In billions of Russian Roubles</i>	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	38.2	172.8	36.6	247.6
Russian federal loan bonds (OFZ bonds)	135.5	—	—	135.5
Foreign government and municipal bonds	42.9	0.7	1.0	44.6
Russian Federation Eurobonds	—	33.2	—	33.2
Russian municipal and subfederal bonds	—	17.8	5.5	23.3
Total investment securities held-to- maturity before provision for impairment	216.6	224.5	43.1	484.2

Credit quality in the table above is based on the rating scale developed by the international rating agencies.

At 31 December 2016 there are restructured debt investment securities held-to-maturity in the amount of RR 0.9 billion that would otherwise be past due (at 31 December 2015: there were restructured debt investment securities held-to-maturity in the amount of RR 2.5 billion that would otherwise be past due).

At 31 December 2016 there are past due investment securities held-to-maturity in the amount of RR 0.9 billion (at 31 December 2015: RR 0.9 billion).

The estimated fair value of investment securities held-to-maturity and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of investment securities held-to-maturity are disclosed in Note 34. The information on securities issued by state-controlled entities is disclosed in Note 41.

Notes to the Consolidated Financial Statements – 31 December 2016

14 Premises and Equipment

<i>in billions of Russian Roubles</i>	Note	Office premises	Other premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Carrying amount at 31 December 2014		321.5	7.3	98.5	38.4	30.7	496.4
Cost or revalued amount							
Balance at the beginning of the year		347.3	7.9	305.4	60.9	30.7	752.2
Additions		1.7	2.8	28.9	12.6	32.6	78.6
Acquisitions through business combinations		—	1.6	—	0.9	2.1	4.6
Transfers		18.7	0.1	7.7	(1.7)	(24.8)	—
Transfers to investment property from premises and equipment		(0.9)	—	—	—	—	(0.9)
Transfers to assets held for sale at cost		(1.6)	—	(1.6)	(0.1)	—	(3.3)
Disposals – at cost or revalued amount		(5.3)	(0.8)	(20.9)	(7.1)	(4.9)	(39.0)
Impairment of premises and equipment recognized in the consolidated statement of profit or loss		(2.4)	—	—	—	—	(2.4)
Exchange differences on translating foreign operations related to cost or revalued amount		(0.9)	0.1	1.7	(0.7)	(0.1)	0.1
Cost or revalued amount at the end of the year		356.6	11.7	321.2	64.8	35.6	789.9
Accumulated depreciation							
Balance at the beginning of the year		(25.8)	(0.6)	(206.9)	(22.5)	—	(255.8)
Disposals - accumulated depreciation		0.7	0.4	20.4	2.5	—	24.0
Depreciation charge	28,30	(10.5)	(0.8)	(42.3)	(8.1)	—	(61.7)
Depreciation charge during the year capitalized in inventory		(0.1)	—	—	—	—	(0.1)
Transfers to assets held for sale from accrued depreciation of premises and equipment		1.6	0.4	1.6	0.7	—	4.3
Transfers of accumulated depreciation		—	—	(3.0)	3.0	—	—
Exchange differences on translating foreign operations related to depreciation		0.2	(0.1)	(1.7)	0.2	—	(1.4)
Accumulated depreciation at the end of the year		(33.9)	(0.7)	(231.9)	(24.2)	—	(290.7)
Carrying amount at 31 December 2015		322.7	11.0	89.3	40.6	35.6	499.2
Cost or revalued amount							
Balance at the beginning of the year		356.6	11.7	321.2	64.8	35.6	789.9
Additions		32.5	0.8	4.9	6.7	51.9	96.8
Acquisitions through business combinations		0.4	1.1	—	0.4	—	1.9
Transfers		(2.2)	7.3	32.8	14.3	(52.2)	—
Transfers to investment property from premises and equipment		(0.3)	—	—	—	—	(0.3)
Transfers (to) / from other types of property		(1.1)	—	(4.1)	6.4	—	1.2
Disposals – at cost or revalued amount		(19.9)	(0.3)	(29.1)	(3.6)	(1.3)	(54.2)
Disposals - impairment		0.3	—	—	—	—	0.3
Adjustment of cost due to revaluation		(40.8)	—	—	—	—	(40.8)
Revaluation of office premises recognized in the consolidated statement of profit or loss		(25.0)	—	—	—	—	(25.0)
Revaluation of office premises recognized in other comprehensive income		2.7	—	—	—	—	2.7
Exchange differences on translating foreign operations related to cost or revalued amount		(3.5)	(0.2)	(5.9)	(4.0)	(0.2)	(13.8)
Cost or revalued amount at the end of the year		299.7	20.4	319.8	85.0	33.8	758.7
Accumulated depreciation							
Balance at the beginning of the year		(33.9)	(0.7)	(231.9)	(24.2)	—	(290.7)
Disposals - accumulated depreciation		1.9	—	29.1	3.2	—	34.2
Depreciation charge	28,30	(9.5)	(1.4)	(43.2)	(9.9)	—	(64.0)
Transfers of accumulated depreciation		0.2	—	0.3	(0.5)	—	—
Adjustment of accumulated depreciation due to revaluation		40.8	—	—	—	—	40.8
Exchange differences on translating foreign operations related to depreciation		0.5	—	2.1	1.3	—	3.9
Accumulated depreciation at the end of the year		—	(2.1)	(243.6)	(30.1)	—	(275.8)
Carrying amount at 31 December 2016		299.7	18.3	76.2	54.9	33.8	482.9

Notes to the Consolidated Financial Statements – 31 December 2016

14 Premises and Equipment (continued)

Construction in progress consists of construction or refurbishment of the Group's premises and equipment. Upon completion, assets are transferred to office premises, other premises or equipment categories.

Office premises are stated at market value. Office premises have been revalued to market value at 31 December 2016. At 31 December 2016 the carrying amount of office premises would have been RR 212.9 billion (31 December 2015: RR 213.0 billion) had the premises been carried at cost less depreciation.

Information on revaluation policies of office premises is disclosed in Note 4.

15 Assets and Liabilities of the Disposal Groups and Non-current Assets Held for Sale

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Assets of the disposal groups and non-current assets held for sale		
- non-current assets held for sale	4.1	5.3
- assets of the disposal groups	1.7	207.4
Total assets of the disposal groups and non-current assets held for sale	5.8	212.7
Liabilities of the disposal groups	0.8	185.9
Total liabilities of the disposal groups	0.8	185.9

Non-current assets held for sale represent non-current assets held for sale by the subsidiaries of the Group.

In May 2016 transfer of ownership of the shares of NP JSC Krasnaya Polyana representing 96.914% of the company share capital was completed following the fulfilment of conditions agreed by the parties to the contract. Thus the Group transferred control over NP JSC Krasnaya Polyana to the buyer. Upon the sale of NP JSC Krasnaya Polyana the Group has recognized a gain of RR 12.2 billion which was included in other net operating income in the consolidated statement of profit or loss.

In July 2016 transfer of ownership of the shares of Sberbank Slovensko a.s. representing 99.5% of the company share capital was completed. Thus the Group transferred control over Sberbank Slovensko a.s. to the buyer. Upon the transfer of control over Sberbank Slovensko a.s. the Group has recognized a gain of RR 3.0 billion which was included in other net operating income in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements – 31 December 2016

16 Other Assets

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Other financial assets		
Receivables on bank cards settlements	116.8	299.7
Margin calls transferred	72.6	148.6
Receivables from Deposit Insurance Agency	32.3	73.2
Settlements on currency conversion operations	27.8	79.9
Trade receivables	18.3	20.4
Accrued fees and commissions	11.3	11.8
Funds in settlement	8.6	8.8
Investments in associates	7.5	6.5
Settlements on operations with securities	5.1	7.2
Restricted cash balances	3.0	2.5
Other	14.4	15.7
Total other financial assets before provision for impairment	317.7	674.3
Less provision for impairment of other financial assets	(3.2)	(3.3)
Total other financial assets after provision for impairment	314.5	671.0
Other non-financial assets		
Inventory	84.4	65.4
Intangible assets	75.0	83.3
Prepayments for premises and other assets	58.1	37.7
Precious metals	50.8	25.8
Goodwill	18.9	22.1
Tax settlements (other than on income)	12.1	5.8
Investment property	8.4	11.1
Prepayment on income tax	9.4	19.6
Prepaid expenses	7.0	8.2
Other	27.7	27.0
Total other non-financial assets before provision for impairment	351.8	306.0
Less provision for impairment of other non-financial assets	(14.0)	(12.2)
Total other non-financial assets after provision for impairment	337.8	293.8
Total other assets	652.3	964.8

As at 31 December 2016 receivables on bank cards settlements of RR 116.8 billion (31 December 2015: RR 299.7 billion) represent receivables due within 30 days on operations of the Group's customers with banking cards and receivables related to settlements with international payment systems.

As at 31 December 2016 receivables from Deposit Insurance Agency of RR 32.3 billion (31 December 2015: RR 73.2 billion) represent receivables recognized from settlements on deposit compensations to clients of the banks which licenses were withdrawn by the Bank of Russia. The settlement of receivables due to the Group from the Deposit Insurance Agency is conducted in tranches and not earlier than 3 months from the date of first payment of deposit compensations to clients or from the date of previous tranche transfer.

Notes to the Consolidated Financial Statements – 31 December 2016

16 Other Assets (continued)

Movement in the provision for impairment of other assets during the year ended 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non- financial assets	Total
Provision for impairment of other assets as at 31 December 2015	1.4	1.9	2.7	9.5	15.5
Net provision charge for impairment of other assets during the year	0.2	2.5	0.2	5.7	8.6
Other assets written off during the year	(0.2)	(2.3)	(0.1)	(4.0)	(6.6)
Exchange differences on translating foreign operations	—	(0.3)	—	—	(0.3)
Provision for impairment of other assets as at 31 December 2016	1.4	1.8	2.8	11.2	17.2

Movement in the provision for impairment of other assets during the year ended 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non- financial assets	Total
Provision for impairment of other assets as at 31 December 2014	0.3	2.8	1.1	9.0	13.2
Net provision charge / (net recovery of provision) for impairment of other assets during the year	1.2	(0.6)	2.1	2.7	5.4
Other assets written off during the year	(0.1)	(0.4)	—	(2.0)	(2.5)
Transfers to assets held for sale	—	—	(0.4)	—	(0.4)
Exchange differences on translating foreign operations	—	0.1	(0.1)	(0.2)	(0.2)
Provision for impairment of other assets as at 31 December 2015	1.4	1.9	2.7	9.5	15.5

Provision for impairment of other assets is recognized by the Group on operations conducted in the normal course of the Group's business. Provision is assessed on the basis of the Group's best estimates of recoverability of other assets.

Movements in goodwill arising on the acquisition of subsidiaries for the year ended 31 December 2016 and 31 December 2015 are:

<i>in billions of Russian Roubles</i>	2016	2015
Carrying amount as at 1 January	22.1	23.7
Acquisition of subsidiaries	1.0	2.9
Disposal of subsidiaries	(0.5)	—
Impairment of goodwill	(0.3)	(6.0)
Exchange differences on translating foreign operations	(3.4)	1.5
Carrying amount as at 31 December	18.9	22.1

Notes to the Consolidated Financial Statements – 31 December 2016

16 Other Assets (continued)

Movements in intangible assets for the year ended 31 December 2016 and 31 December 2015 are as follows:

<i>In billions of Russian Roubles</i>	Note	Intangible assets acquired through business combination	Other intangible assets	Total intangible assets
Carrying amount at 31 December 2014		30.2	47.5	77.7
Cost of intangible assets				
Balance at the beginning of the year		55.4	74.5	129.9
Additions		—	21.2	21.2
Internally generated		—	5.5	5.5
Transfers to assets held for sale at cost		—	(2.0)	(2.0)
Disposals due to sale of subsidiary		(0.1)	—	(0.1)
Disposals – at cost		—	(0.8)	(0.8)
Impairment of intangible assets recognized in the consolidated statement of profit or loss		—	(0.4)	(0.4)
Exchange differences on translating foreign operations related to cost		1.0	1.0	2.0
Cost of intangible assets at the end of the year		56.3	99.0	155.3
Accumulated amortisation				
Balance at the beginning of the year		(25.2)	(27.0)	(52.2)
Amortisation charge	28,30	(9.9)	(10.7)	(20.6)
Disposals - accumulated amortisation		—	0.4	0.4
Transfers to assets held for sale from accrued amortisation of intangible assets		—	2.0	2.0
Exchange differences on translating foreign operations related to amortisation		(0.8)	(0.8)	(1.6)
Accumulated amortisation at the end of the year		(35.9)	(36.1)	(72.0)
Carrying amount at 31 December 2015		20.4	62.9	83.3
Cost of intangible assets				
Balance at the beginning of the year		56.3	99.0	155.3
Additions		—	15.3	15.3
Internally generated		—	9.4	9.4
Disposals due to sale of subsidiary		—	(0.1)	(0.1)
Disposals – at cost		(9.6)	(23.5)	(33.1)
Impairment of intangible assets recognized in the consolidated statement of profit or loss		—	(0.3)	(0.3)
Exchange differences on translating foreign operations related to cost		(13.8)	(7.6)	(21.4)
Cost of intangible assets at the end of the year		32.9	92.2	125.1
Accumulated amortisation				
Balance at the beginning of the year		(35.9)	(36.1)	(72.0)
Amortisation charge	28,30	(5.6)	(14.8)	(20.4)
Amortisation charge during the year capitalized in inventory		—	(0.1)	(0.1)
Disposals - accumulated amortisation		9.1	20.1	29.2
Exchange differences on translating foreign operations related to amortisation		9.3	3.9	13.2
Accumulated amortisation at the end of the year		(23.1)	(27.0)	(50.1)
Carrying amount at 31 December 2016		9.8	65.2	75.0

Notes to the Consolidated Financial Statements – 31 December 2016

16 Other Assets (continued)

The estimated fair value of other financial assets and fair value measurement used is disclosed in Note 37. Currency and maturity analyses of other assets are disclosed in Note 34. The information on related parties balances is disclosed in Note 40.

17 Due to Banks

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Term placements of banks	342.0	773.8
Correspondent accounts and overnight placements of banks	179.8	153.7
Direct repo agreements with banks	40.1	118.4
Total due to banks	561.9	1,045.9

Term placements of banks represent funds received on interbank market.

Refer to Note 38 for information on the amounts included in due to banks received under sale and repurchase agreements and fair value of securities pledged.

The estimated fair value of due to banks and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of due to banks are disclosed in Note 34. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 40 and 41.

18 Due to Individuals and Corporate Customers

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Individuals:		
- Current/demand accounts	2,478.9	2,415.4
- Term deposits	9,970.1	9,627.9
- Direct repo agreements	0.6	0.4
Total due to individuals	12,449.6	12,043.7
State and public organizations:		
- Current/settlement accounts	147.8	134.3
- Term deposits	184.2	325.3
Total due to state and public organizations	332.0	459.6
Other corporate customers:		
- Current/settlement accounts	1,834.5	2,226.9
- Term deposits	3,997.4	4,957.4
- Direct repo agreements	71.3	110.7
Total due to other corporate customers	5,903.2	7,295.0
Total due to corporate customers	6,235.2	7,754.6
Total due to individuals and corporate customers	18,684.8	19,798.3

Notes to the Consolidated Financial Statements – 31 December 2016

18 Due to Individuals and Corporate Customers (continued)

Economic sector risk concentrations within Due to individuals and corporate customers are as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Amount	%	Amount	%
Individuals	12,449.6	66.6	12,043.7	60.8
Oil and gas	1,363.6	7.3	2,140.8	10.8
Services	863.8	4.6	1,029.5	5.2
Machinery	751.0	4.0	687.2	3.5
Trade	540.2	2.9	536.1	2.7
Construction	335.4	1.8	367.5	1.9
Metallurgy	316.2	1.7	524.2	2.6
Energy	315.6	1.7	531.7	2.7
Transport, aviation, space industry	290.9	1.6	277.4	1.4
Food and agriculture	172.6	0.9	200.0	1.0
Telecommunications	169.0	0.9	203.9	1.0
Municipal bodies and state organizations	166.8	0.9	213.5	1.1
Chemical	98.8	0.5	127.9	0.6
Real estate	98.6	0.5	131.5	0.7
Timber industry	28.8	0.2	39.6	0.2
Other	723.9	3.9	743.8	3.8
Total due to individuals and corporate customers	18,684.8	100.0	19,798.3	100.0

For description of the basis of presentation of economic sector risk concentrations of Due to individuals and corporate customers refer to Note 4.

As at 31 December 2016 included in due to corporate customers are deposits of RR 102.7 billion (31 December 2015: RR 116.2 billion) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 35.

As at 31 December 2016 the Group had 20 largest groups of related customers with balances above RR 30.5 billion each (31 December 2015: 20 largest groups of related customers with balances above RR 38.8 billion each). The aggregate balance of these customers was RR 2,399.4 billion (31 December 2015: RR 3,143.3 billion) or 12.8% (31 December 2015: 15.9%) of total due to individuals and corporate customers.

Refer to Note 38 for information on the amounts due to corporate customers received under sale and repurchase agreements and carrying value of assets pledged.

The estimated fair value of due to individuals and corporate customers and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of due to individuals and corporate customers are disclosed in Note 34. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 40 and 41.

19 Debt Securities in Issue

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Savings certificates	482.6	577.7
Loan participation notes issued under the MTN programme of Sberbank	473.9	607.0
Bonds issued:		
- on the local market	84.3	70.1
- on international capital markets	21.1	34.5
Promissory notes	92.4	80.7
Bonds issued under mortgage securitization programme of Sberbank	5.5	7.2
Other debt securities issued	1.2	1.3
Total debt securities in issue	1,161.0	1,378.5

Notes to the Consolidated Financial Statements – 31 December 2016

19 Debt Securities in Issue (continued)

Description of the debt securities issued under MTN programme of Sberbank is presented in the table below:

Issue	Drawdown date	Maturity date	Currency	Nominal value in currency of issue, in millions	Contractual interest rate, % p.a.	31 December 2016		31 December 2015	
						Carrying value, in billions of RR	Effective interest rate, % p.a.	Carrying value, in billions of RR	Effective interest rate, % p.a.
Series 5	24 September 2010	24 March 2017	USD	1,250	5.4	74.7	5.4	89.8	5.4
Series 7	16 June 2011	16 June 2021	USD	1,000	5.7	50.6	5.8	60.8	5.8
Series 8	07 February 2012	07 February 2017	USD	1,300	5.0	74.7	4.8	89.6	4.8
Series 9	07 February 2012	07 February 2022	USD	1,500	6.1	91.6	5.6	108.8	5.6
Series 11	28 June 2012	28 June 2019	USD	1,000	5.2	55.7	5.3	66.9	5.3
Series 13	31 January 2013	31 January 2016	RUB	25,000	7.0	—	—	22.2	7.2
Series 14	28 February 2013	28 February 2017	CHF	250	2.1	15.1	2.1	18.7	2.1
Series 15	04 March 2013	04 March 2018	TRY	550	7.4	8.0	7.6	12.6	7.6
Series 18	06 March 2014	06 March 2019	USD	500	4.2	30.7	4.2	36.9	4.2
Series 19	07 March 2014	07 March 2019	EUR	500	3.1	32.2	3.1	40.2	3.1
Series 20	26 June 2014	15 November 2019	EUR	1,000	3.4	40.6	3.4	60.5	3.4
Total loan participation notes issued under the MTN programme of Sberbank						473.9		607.0	

During the year ended 31 December 2016 the Group repurchased a portion of the loan participation notes issued under the MTN programme of Sberbank from the market. The gain from early redemption of these notes amounted to RR 0.1 billion and is presented within other net operating income in the consolidated statement of profit or loss (during the year ended 31 December 2015: RR 4.2 billion).

Savings certificates are interest-bearing securities issued by the Group. They are denominated in Russian Roubles and have maturity dates from three months to three years (31 December 2015: from three months to three years). Interest rates on these securities vary from 6.5% to 10.5% p.a. (31 December 2015: from 8.3% to 13.0% p.a.).

Bonds issued represent interest-bearing securities issued by the members of the Group. They are denominated in Russian Roubles, Turkish Lira, Belarusian Roubles, US Dollars, Euro, Kazakh Tenge and Czech Koruna and have maturity dates from January 2017 to December 2024 (31 December 2015: from January 2016 to September 2023). Interest rates on these securities vary from 1.3% to 20.0% p.a. (31 December 2015: from 1.0% to 27.0% p.a.).

Promissory notes are interest-bearing or discount securities issued by the members of the Group. They are denominated in Russian Roubles, US Dollars, Euro and Hungarian Forints and have maturity dates from two weeks to ten years (31 December 2015: from two weeks to seven years). Interest or discount rates on promissory notes issued by the Group vary from 0.01% to 8.9% p.a. (31 December 2015: from 0.5% to 16.0% p.a.).

The estimated fair value of debt securities in issue and fair value measurement used are disclosed in Note 37. Currency and maturity analyses are disclosed in Note 34.

Notes to the Consolidated Financial Statements – 31 December 2016

20 Other Borrowed Funds

As at 31 December 2016 trade finance deals were accounted for at amortized cost of RR 261.4 billion (31 December 2015: RR 398.0 billion), had interest rates varying from 0.1% to 12.9% p.a. (31 December 2015: from 0.1% to 15.0% p.a.) and maturity dates from January 2017 to July 2027 (31 December 2015: from January 2016 to June 2027).

The estimated fair value of other borrowed funds and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of other borrowed funds are disclosed in Note 34.

21 Financial Liabilities at Fair Value through Profit or Loss other than Debt Securities in Issue

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Derivative financial instruments	181.7	397.2
Obligation to deliver securities	31.2	29.4
Total financial liabilities at fair value through profit or loss other than debt securities in issue	212.9	426.6

The composition of derivative financial instruments as at 31 December 2016 and 31 December 2015 is presented below:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Foreign currency derivatives	78.5	121.6
Foreign currency interest rate derivatives	70.7	210.4
Interest rate derivatives	20.5	23.5
Commodity derivatives including precious metals derivatives	10.2	40.4
Equity securities derivatives	1.4	1.0
Debt securities derivatives	0.2	0.2
Credit risk derivatives	0.2	0.1
Total derivative financial instruments	181.7	397.2

For the detailed analysis of the derivative instruments of the Group refer to Note 36.

Currency and maturity analyses of financial liabilities at fair value through profit or loss other than debt securities in issue are disclosed in Note 34.

Notes to the Consolidated Financial Statements – 31 December 2016

22 Other Liabilities

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Provisions on insurance and pension fund operations		
Provisions on pension fund operations	367.9	256.6
Provisions on insurance operations	105.9	64.2
Provision on unearned premium	5.4	2.8
Total provisions on insurance and pension fund operations	479.2	323.6
Other financial liabilities		
Payables on bank card settlements	131.4	158.2
Accrued employee benefit costs	40.5	34.9
Margin calls received	33.2	79.0
Payables	33.1	44.9
Funds in settlement	31.0	43.0
Deposit insurance system fees payable	13.3	10.2
Settlements on operations with securities	4.9	5.3
Settlements on currency conversion operations	0.6	0.1
Other	24.6	22.0
Total other financial liabilities	312.6	397.6
Other non-financial liabilities		
Taxes payable other than on income	23.3	28.6
Provisions for impairment of credit related commitments and other contingencies and commitments	19.0	13.4
Advances received	18.1	11.5
Income tax payable	4.2	2.8
Deferred commissions received on guarantees issued	3.4	2.4
Other	9.3	8.1
Total other non-financial liabilities	77.3	66.8
Total other liabilities	869.1	788.0

Movement in the provision for impairment of credit related commitments and other contingencies and commitments during the year ended 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Guarantees issued	Commitments to extend credit and undrawn credit lines	Letters of credit	Other contingencies and commitments	Total
Provision for impairment as at 31 December 2015	4.5	0.2	0.3	8.4	13.4
Net provision charge / (net recovery of provision) for impairment during the year	8.0	4.5	(0.1)	(1.6)	10.8
Write-off and utilization	—	—	—	(3.3)	(3.3)
Exchange differences on translating foreign operations	(1.1)	(0.1)	(0.1)	(0.6)	(1.9)
Provision for impairment as at 31 December 2016	11.4	4.6	0.1	2.9	19.0

Notes to the Consolidated Financial Statements – 31 December 2016

22 Other Liabilities (continued)

Movement in the provision for impairment of credit related commitments and other contingencies and commitments during the year ended 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Guarantees issued	Commitments to extend credit and undrawn credit lines	Letters of credit	Other contingencies and commitments	Total
Provision for impairment as at 31 December 2014	9.3	—	—	2.4	11.7
(Net recovery of provision) / net provision charge for impairment during the year	(4.8)	0.2	0.3	5.2	0.9
Write-off and utilization	(0.1)	—	—	(0.2)	(0.3)
Transfers to liabilities of the disposal group	—	—	—	0.5	0.5
Exchange differences on translating foreign operations	0.1	—	—	0.5	0.6
Provision for impairment as at 31 December 2015	4.5	0.2	0.3	8.4	13.4

Liabilities on insurance and pension fund operations. The liabilities on insurance and pension fund operations consist predominantly of actuarial provision. The tables below represent the movement of this provision for insurance contract liabilities with/without discretionary participation features (DPF) and for investment contract liabilities with DPF.

The table below represents the movement of actuarial provision on insurance operations for the year ended 31 December 2016:

<i>in billions of Russian Roubles</i>	Insurance contract liabilities with DPF	Insurance contract liabilities without DPF	Investment contract liabilities with DPF	Total gross insurance contract liabilities
Provision as at 31 December 2015	5.1	61.9	—	67.0
Increase related to new contracts	0.4	13.6	27.7	41.7
Payments and transfers	—	(0.3)	—	(0.3)
Other movements including changes on run-off contracts	1.5	(0.9)	1.8	2.4
Exchange differences on translating foreign operations	(0.6)	2.0	(0.9)	0.5
Provision as at 31 December 2016	6.4	76.3	28.6	111.3

The table below represents the movement of actuarial provision on insurance operations for the year ended 31 December 2015:

<i>in billions of Russian Roubles</i>	Insurance contract liabilities with DPF	Insurance contract liabilities without DPF	Total gross insurance contract liabilities
Provision as at 31 December 2014	2.8	31.8	34.6
Increase related to new contracts	1.2	30.8	32.0
Other movements including changes on run-off contracts	0.5	(0.3)	0.2
Exchange differences on translating foreign operations	0.6	(0.4)	0.2
Provision as at 31 December 2015	5.1	61.9	67.0

Notes to the Consolidated Financial Statements – 31 December 2016

22 Other Liabilities (continued)

The table below represents the movement of actuarial provision on pension fund operations for the year ended 31 December 2016:

<i>in billions of Russian Roubles</i>	Insurance contract liabilities with DPF	Investment contract liabilities with DPF	Total gross pension contract liabilities
Provision as at 31 December 2015	243.4	13.2	256.6
Increase related to new contracts	100.2	0.5	100.7
Payments and transfers	(19.1)	(0.3)	(19.4)
Other movements including changes on run-off contracts	26.6	3.4	30.0
Provision as at 31 December 2016	351.1	16.8	367.9

The table below represents the movement of actuarial provision on pension fund operations for the year ended 31 December 2015:

<i>in billions of Russian Roubles</i>	Insurance contract liabilities with DPF	Investment contract liabilities with DPF	Total gross pension contract liabilities
Provision as at 31 December 2014	74.6	9.7	84.3
Increase related to new contracts	158.4	1.0	159.4
Payments and transfers	(7.8)	(0.3)	(8.1)
Other movements including changes on run-off contracts	18.2	2.8	21.0
Provision as at 31 December 2015	243.4	13.2	256.6

Pension plans of the Group. The Group applies IAS 19 Employee Benefits for accounting for its pension liabilities. As at 31 December 2016 the Group operates two pension plans – pension plan with defined pension payments/benefits and plan with defined pension contributions.

All the employees of the Bank (including retired) who were entitled for state pension payments or had five years or less to retirement as at 1 January 2011 participate in the pension plan with defined benefits. The amount of payments is determined mainly based on duration of employment and position of an employee with the Bank at the date of retirement.

All the employees of the Bank with three years of continuous employment with the Bank except the Executive Board members, those employees who had five years or less to retirement as at 1 January 2011 or those who are already entitled for state pension payments participate in the pension plan with defined pension contributions (which are calculated as a percent of wage). According to the programme employees whose continuous employment with the Bank reaches seven years become unconditionally entitled to these contributions upon retirement.

As at 31 December 2016 pension liabilities of the Group comprised RR 15.6 billion (31 December 2015: RR 12.2 billion) and were included in accrued employee benefit costs in Other liabilities line of the consolidated statement of financial position. Pension expenses for the year ended 31 December 2016 amounted to RR 6.8 billion (31 December 2015: RR 3.9 billion) and were included in staff costs within operating expenses in the consolidated statement of profit or loss.

The estimated fair value of other financial liabilities and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of other liabilities are disclosed in Note 34.

Notes to the Consolidated Financial Statements – 31 December 2016

23 Subordinated Debt

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Subordinated debt received from the Bank of Russia	504.4	504.5
Subordinated debt issued under the MTN programme of Sberbank	204.7	259.0
Other subordinated debt	30.8	43.0
Total subordinated debt	739.9	806.5

Description of the subordinated debt received by the Group from the Bank of Russia is presented in the table below:

Drawdown date	Interest rate repricing date	Currency	Nominal value in currency of issue, in millions	Contractual interest rate, % p.a.	31 December 2016		31 December 2015	
					Carrying value, in billions of RR	Effective interest rate, % p.a.	Carrying value, in billions of RR	Effective interest rate, % p.a.
16 December 2008	31 December 2019	RUB	300,000	6.5	304.0	6.5	304.1	6.5
18 June 2014	31 December 2019	RUB	200,000	6.5	200.4	6.5	200.4	6.5
Total subordinated debt received from the Bank of Russia					504.4		504.5	

In March 2015, following the amendments to the Federal Law of the Russian Federation “On additional measures for supporting the financial system of the Russian Federation” terms and conditions of the subordinated loans received from the Bank of Russia in the total nominal value of RR 500.0 billion were modified. As it was allowed by the Federal Law the Bank elected to prolong these subordinated loans for 50 years from the date of the original draw down with an ability to unilaterally (without consent from Bank of Russia) roll over this subordinated facility at its maturity. The subordinated loan facility bears an interest rate of 6.5% p.a. Based on the terms and conditions of the modified subordinated loan the interest rate can be reset after 31 December 2019.

The Group considers that the terms of initial financial instruments previously reported by the Group were not significantly modified. On the repricing date the Group will reassess its judgement provided the conditions of the subordinated loans are substantially revised.

Description of the subordinated debt issued under the MTN programme of Sberbank is presented in the table below:

Issue	Drawdown date	Maturity date	Currency	Nominal value in currency of issue, in millions	Contractual interest rate, % p.a.	31 December 2016		31 December 2015	
						Carrying value, in billions of RR	Effective interest rate, % p.a.	Carrying value, in billions of RR	Effective interest rate, % p.a.
Series 12	29 October 2012	29 October 2022	USD	2,000	5.1	85.0	5.2	113.7	5.2
Series 16	23 May 2013	23 May 2023	USD	1,000	5.3	60.1	5.4	72.3	5.4
Series 17	26 February 2014	26 February 2024	USD	1,000	5.5	59.6	5.6	73.0	5.6
Total subordinated debt issued under the MTN programme of Sberbank						204.7		259.0	

During the year ended 31 December 2016 the Group repurchased a portion of the subordinated loan participation notes issued under the MTN programme from the market. The gain from early redemption of these notes amounted to RR 0.5 billion and is presented within other net operating income in the consolidated statement of profit or loss (during the year ended 31 December 2015: RR 2.3 billion).

Notes to the Consolidated Financial Statements – 31 December 2016

23 Subordinated Debt (continued)

In the event of the Bank's liquidation the claims of the holders of the subordinated debt would be subordinated to all other creditors.

The estimated fair value of subordinated debt and fair value measurement used are disclosed in Note 37. Currency and maturity analyses of subordinated debt are disclosed in Note 34. The information on related parties balances is disclosed in Note 40.

24 Share Capital and Treasury Shares

<i>In billions of Russian Roubles, except for number of shares</i>	31 December 2016			31 December 2015		
	Number of shares, in millions	Nominal amount	Inflation adjusted nominal amount	Number of shares, in millions	Nominal amount	Inflation adjusted nominal amount
Ordinary shares	21,587	64.8	83.3	21,587	64.8	83.3
Preference shares	1,000	3.0	4.4	1,000	3.0	4.4
Total share capital	22,587	67.8	87.7	22,587	67.8	87.7

As at 31 December 2016 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15.0% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 65.7% of nominal value for the year ended 31 December 2015 (15.0% of nominal value for the year ended 31 December 2014). Preference share dividends rank above ordinary dividends.

The treasury shares as at 31 December 2016 and 31 December 2015 were as follows:

<i>In billions of Russian Roubles, except for number of shares</i>	31 December 2016			31 December 2015		
	Number of shares, in millions	Inflation adjusted nominal amount	Acquisition cost	Number of shares, in millions	Inflation adjusted nominal amount	Acquisition cost
Ordinary shares	45.9	0.2	5.4	44.1	0.2	4.2
Preference shares	30.4	0.1	2.5	30.5	0.2	2.5
Total treasury shares	76.3	0.3	7.9	74.6	0.4	6.7

Notes to the Consolidated Financial Statements – 31 December 2016

25 Interest Income and Expense

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Interest income		
Interest income on financial assets not at fair value through profit or loss		
Interest income on financial assets carried at amortized cost:		
- Loans and advances to customers	2,145.7	2,085.0
- Due from banks	46.9	22.8
- Debt investment securities held-to-maturity	39.8	34.8
- Correspondent/current accounts with banks	5.4	2.7
	2,237.8	2,145.3
Interest income on financial assets available-for-sale:		
- Debt investment securities available-for-sale	130.2	117.4
	130.2	117.4
Total interest income on financial assets not at fair value through profit or loss	2,368.0	2,262.7
Interest income on financial assets at fair value through profit or loss:		
- Debt securities designated as at fair value through profit or loss	25.6	12.4
- Debt trading securities	5.3	4.2
- Other interest income	0.1	0.3
	31.0	16.9
Total interest income	2,399.0	2,279.6
Interest expense		
Interest expense on financial liabilities not at fair value through profit or loss		
Interest expense on financial liabilities carried at amortized cost:		
- Term deposits of individuals	(532.8)	(519.0)
- Term deposits of legal entities	(195.5)	(273.7)
- Debt securities in issue at amortized cost	(86.7)	(91.5)
- Current/settlement accounts of legal entities	(53.4)	(68.4)
- Subordinated debt	(47.0)	(47.0)
- Term placements of banks	(38.8)	(219.2)
- Current/demand accounts of individuals	(18.1)	(15.9)
- Other borrowed funds	(10.7)	(12.8)
- Correspondent/current accounts of banks	(2.5)	(4.5)
	(985.5)	(1,252.0)
Interest expense on financial liabilities at fair value through profit or loss:		
- Obligation to deliver securities	(1.4)	(1.2)
	(1.4)	(1.2)
Total interest expense	(986.9)	(1,253.2)
Deposit insurance expenses	(49.3)	(38.4)
Total interest expense including deposit insurance expenses	(1,036.2)	(1,291.6)
Net interest income	1,362.8	988.0

Notes to the Consolidated Financial Statements – 31 December 2016

26 Fee and Commission Income and Expense

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Fee and commission income		
Cash and settlements transactions with legal entities	248.7	205.0
Cash and settlements transactions with individuals	101.7	89.8
Documentary commissions	25.7	23.1
Operations with foreign currencies and precious metals	22.0	40.1
Agent commissions	12.5	8.4
Cash collection	7.8	7.1
Operations on financial markets on behalf of clients and investment banking operations	5.6	5.0
Other	12.3	5.6
Total fee and commission income	436.3	384.1
Fee and commission expense		
Settlement transactions	(80.9)	(60.2)
Operations with foreign currencies	(0.4)	(0.5)
Cash collection	(0.4)	(0.4)
Other	(5.5)	(4.0)
Total fee and commission expense	(87.2)	(65.1)
Net fee and commission income	349.1	319.0

27 Net Results from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Net foreign exchange translation losses	(14.7)	(69.0)
Net (losses) / gains from operations with foreign currency and foreign currency interest rate derivatives	(42.2)	70.6
Net gains from trading in foreign currencies	3.5	81.5
Total net (losses) / gains from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	(53.4)	83.1

Notes to the Consolidated Financial Statements – 31 December 2016

28 Net Results of Non-core Business Activities

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Revenue from sale of goods	18.1	12.1
Revenue from rendering of services	0.7	0.9
Revenue from construction contracts	0.6	1.4
Revenue from operating lease	0.4	0.1
Revenue from other activities	11.0	9.9
Total revenue of non-core business activities	30.8	24.4
Cost of sales and other expenses:		
- cost of goods sold	(14.0)	(11.3)
- staff costs	(5.5)	(5.1)
- maintenance of premises and equipment	(1.8)	(2.5)
- depreciation of premises and equipment	(1.2)	(1.5)
- transport costs	(0.2)	(0.1)
- amortization of intangible assets	(0.2)	—
- customs duties and taxes	(0.1)	—
- other expenses	(4.1)	(4.9)
Total cost of sales and other expenses of non-core business activities	(27.1)	(25.4)
Net result of non-core business activities	3.7	(1.0)

29 Net premiums, claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Net premiums		
Gross premiums written	194.7	225.0
Premiums ceded to reinsurers	(0.4)	(0.2)
Premiums returns	(1.5)	(1.5)
Total net premiums from insurance and pension fund operations	192.8	223.3
Net claims, benefits and change in contract liabilities		
Gross benefits and claims occurred	(22.2)	(9.3)
Claims ceded to reinsurers	0.3	—
Change in contract liabilities	(155.1)	(204.5)
Total net claims, benefits and change in contract liabilities	(177.0)	(213.8)
Acquisition costs	(0.8)	(0.3)
Total net claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations	(177.8)	(214.1)
Total	15.0	9.2

Notes to the Consolidated Financial Statements – 31 December 2016

30 Operating Expenses

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Staff costs	384.3	346.0
Depreciation of premises and equipment	62.8	60.2
Repairs and maintenance of premises and equipment	42.5	39.9
Administrative expenses	39.7	38.3
Taxes other than on income	34.1	36.0
Operating lease expenses	33.1	28.1
Telecommunication expenses	29.4	27.1
Amortization of intangible assets	20.2	20.6
Consulting and assurance services	12.1	10.5
Advertising and marketing services	8.7	7.3
Other	10.7	9.4
Total operating expenses	677.6	623.4

For the year ended 31 December 2016 expenses for defined pension contribution plans amounted to RR 50.6 billion (31 December 2015: RR 41.7 billion).

31 Income Taxes

Income tax expenses consist of the following components:

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Current tax	225.2	49.5
Deferred tax	(89.6)	58.8
Income tax expense for the year	135.6	108.3

The income tax rate applicable to the major part of the Group's income for 31 December 2016 is 20% (31 December 2015: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Profit before tax	677.5	331.2
Theoretical tax charge at statutory rate (2016: 20%; 2015: 20%)	135.5	66.2
Tax effect on income on government securities taxed at rates other than 20%	(4.0)	(3.5)
Non-deductible staff costs	0.4	0.8
Unrecognized tax assets	4.1	31.1
Differences between 20% and income tax rate adopted in jurisdiction of subsidiary	1.6	0.9
Differences between applicable income tax rate and standard income tax rate adopted in the jurisdiction of the subsidiary	(3.0)	(2.6)
Other non-temporary differences	1.0	15.4
Income tax expense for the year	135.6	108.3

Notes to the Consolidated Financial Statements – 31 December 2016

31 Income Taxes (continued)

Differences between IFRS and Russian statutory taxation regulations and between IFRS and local taxation regulations for foreign subsidiaries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (31 December 2015: 20%), except for income on state, municipal and certain other types of securities that is taxed at 15% (31 December 2015: 15%) and on dividends that are taxed at 13% and 0% (31 December 2015: 9% and 0%) and except for the temporary differences related to foreign subsidiaries for which local corporate tax rates are applied.

<i>in billions of Russian Roubles</i>	31 December 2015	Business combinations and disposal of subsidiaries	Credited/ (charged) to profit or loss	Recognized in other comprehen- sive income	Currency translation differences	31 December 2016
Tax effect of deductible temporary differences						
Staff expenses accrued (bonuses, annual leave, pension liabilities)	5.8	—	(2.0)	—	(0.3)	3.5
Provision for impairment of debt financial assets	9.4	0.5	1.9	—	(2.0)	9.8
Accounting for derivatives at fair value	(21.2)	—	24.2	—	(0.1)	2.9
Accounting for loans by effective rate method	14.7	—	1.9	—	(0.1)	16.5
Write-down of low value assets	0.4	—	1.7	—	—	2.1
Other provisions	6.7	0.4	(1.9)	—	—	5.2
Accounting for financial contracts with embedded derivatives	1.7	—	(0.4)	—	—	1.3
Accrual of expenses on customer loyalty programs	2.1	—	1.1	—	—	3.2
Accounting of securities	1.9	—	(1.2)	0.3	0.1	1.1
Tax losses carry forward	8.1	0.1	(2.3)	—	(1.0)	4.9
Other	16.6	(0.1)	(0.7)	2.2	(0.2)	17.8
Gross deferred tax asset	46.2	0.9	22.3	2.5	(3.6)	68.3
Tax effect of taxable temporary differences						
Provision for impairment of debt financial assets	(35.1)	—	9.7	—	0.2	(25.2)
Accounting for derivatives at fair value	(2.1)	—	0.3	—	0.3	(1.5)
Accounting for loans by effective rate method	(5.1)	—	(0.2)	—	—	(5.3)
Other provisions	—	—	(0.3)	—	—	(0.3)
Depreciation and initial cost or revalued amount of premises and equipment	(41.4)	(0.3)	3.2	(0.5)	0.4	(38.6)
Accounting for financing by the effective rate method and early redemption of own issued bonds	0.2	—	(1.5)	—	—	(1.3)
Credit related commitments provision	(7.5)	—	1.5	—	—	(6.0)
Accounting of securities	(60.2)	—	51.4	(18.0)	—	(26.8)
Other	(9.7)	—	3.2	—	2.0	(4.5)
Gross deferred tax liability	(160.9)	(0.3)	67.3	(18.5)	2.9	(109.5)
Total net deferred tax (liability) / asset	(114.7)	0.6	89.6	(16.0)	(0.7)	(41.2)

Notes to the Consolidated Financial Statements – 31 December 2016

31 Income Taxes (continued)

<i>in billions of Russian Roubles</i>	31 December 2014	Business combinations and disposal of subsidiaries	Credited/ (charged) to profit or loss	Recognized in other comprehen- sive income	Transfer to assets held for sale	Currency translation differences	31 December 2015
Tax effect of deductible temporary differences							
Staff expenses accrued (bonuses, annual leave, pension liabilities)	4.9	—	0.9	—	—	—	5.8
Provision for impairment of debt financial assets	9.3	—	1.1	—	(1.2)	0.2	9.4
Accounting for derivatives at fair value	7.3	—	(28.3)	—	—	(0.2)	(21.2)
Accounting for loans by effective rate method	11.1	—	3.3	—	—	0.3	14.7
Write-down of low value assets	2.3	—	(1.9)	—	—	—	0.4
Other provisions	1.7	—	5.0	—	—	—	6.7
Accounting for financial contracts with embedded derivatives	2.1	—	(0.4)	—	—	—	1.7
Accrual of expenses on customer loyalty programs	1.8	—	0.3	—	—	—	2.1
Accounting of securities	2.5	—	(2.7)	2.1	—	—	1.9
Tax losses carry forward	5.8	—	1.9	—	(0.1)	0.5	8.1
Other	8.9	0.8	6.2	1.4	(0.1)	(0.6)	16.6
Gross deferred tax asset	57.7	0.8	(14.6)	3.5	(1.4)	0.2	46.2
Tax effect of taxable temporary differences							
Provision for impairment of debt financial assets	(28.1)	—	(7.4)	—	—	0.4	(35.1)
Accounting for derivatives at fair value	(4.3)	—	2.1	—	—	0.1	(2.1)
Accounting for loans by effective rate method	(3.6)	—	(1.5)	—	—	—	(5.1)
Other provisions	—	0.1	(0.1)	—	—	—	—
Depreciation and initial cost or revalued amount of premises and equipment	(11.8)	(0.8)	(28.9)	—	—	0.1	(41.4)
Accounting for financing by the effective rate method and early redemption of own issued bonds	1.1	—	(0.9)	—	—	—	0.2
Credit related commitments provision	1.1	—	(8.6)	—	—	—	(7.5)
Accounting of securities	(27.9)	—	1.2	(33.5)	0.1	(0.1)	(60.2)
Other	(10.4)	0.1	(0.1)	0.1	0.1	0.5	(9.7)
Gross deferred tax liability	(83.9)	(0.6)	(44.2)	(33.4)	0.2	1.0	(160.9)
Total net deferred tax (liability) / asset	(26.2)	0.2	(58.8)	(29.9)	(1.2)	1.2	(114.7)

As at 31 December 2016 the deductible temporary difference between investments in subsidiaries in the statement of financial position of the parent company for tax purposes and value of net assets of subsidiaries under IFRS amounted to RR 30.7 billion (31 December 2015: the taxable temporary difference of RR 20.8 billion). In accordance with IAS 12 *Income Taxes* respective deferred tax asset of RR 6.1 billion (31 December 2015: respective deferred tax liability of RR 4.2 billion) was not recognized in the financial statements, since the Group has an ability to control the timing of temporary difference reversal and it is not expected that temporary differences will be reversed in the foreseeable future.

Notes to the Consolidated Financial Statements – 31 December 2016

32 Earnings per Share and Dividends

Basic earnings per share is calculated by dividing the profit attributable to the holders of ordinary shares of the Bank by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore the diluted earnings per share equal to the basic earnings per share.

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Profit for the year attributable to the shareholders of the Bank	540.5	223.3
Less preference dividends declared	(1.9)	(0.5)
Profit attributable to the ordinary shareholders of the Bank	538.6	222.8
Weighted average number of ordinary shares in issue (billions)	21.5	21.5
Earnings per ordinary share, basic and diluted (expressed in RR per share)	25.00	10.36

On 27 May 2016, the Annual General Shareholders' Meeting of the Bank declared dividends of RR 44.5 billion for 2015 including RR 0.1 billion paid on treasury shares. On 29 May 2015, the Annual General Shareholders' Meeting of the Bank declared dividends of RR 10.2 billion for 2014.

<i>in billions of Russian Roubles</i>	Year ended 31 December 2016		Year ended 31 December 2015	
	Ordinary	Preference	Ordinary	Preference
Dividends payable as at 1 January	0.4	0.1	0.5	0.1
Dividends declared during the year	42.5	1.9	9.7	0.5
Dividends paid during the year	(42.6)	(1.9)	(9.8)	(0.5)
Dividends payable as at 31 December	0.3	0.1	0.4	0.1
Dividends per share declared during the year (RR per share)	1.97	1.97	0.45	0.45

Dividends were declared and paid in Russian Roubles.

33 Segment Analysis

For the purposes of management the Group is divided into operating segments of activity – Central head office, 14 regional head offices and subsidiaries – which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- **Moscow, including:**
 - Central head office of the Group,
 - Regional head office of Moscow,
 - Subsidiaries of the Group located in the region.
- **Central and Northern regions of European part of Russia, including:**

Regional head offices:

 - Severny – Yaroslavl,
 - Severo-Zapadny – Saint-Petersburg,
 - Tsentralno-Chernozemny – Voronezh,
 - Srednerussky – Moscow;

Subsidiaries of the Group located in the region.
- **Volga region and South of European part of Russia, including:**

Regional head offices:

 - Volgo-Vyatsky – Nizhniy Novgorod,
 - Povolzhsky – Samara,
 - Yugo-Zapadny – Rostov-on-Don;

Subsidiaries of the Group located in the region.
- **Ural, Siberia and Far East of Russia, including:**

Regional head offices:

 - Zapadno-Uralsky – Perm,
 - Uralsky – Ekaterinburg,
 - Sibirsky – Novosibirsk,
 - Zapadno-Sibirsky – Tumen,
 - Dalnevostochny – Khabarovsk,
 - Baikalsky – Irkutsk;

Subsidiaries of the Group located in the region.
- **Other countries, including:**
 - Subsidiaries located in Turkey,
 - Subsidiaries located in Ukraine, Kazakhstan, Belarus,
 - Subsidiaries located in Austria and Switzerland,
 - Subsidiaries of Sberbank Europe AG located in Central and Eastern Europe,
 - Companies of ex-Troika Dialog Group Ltd. located in the USA, the United Kingdom, Cyprus and certain other jurisdictions,
 - A branch office in India,
 - Representative offices in Germany and China.

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segment reporting and operating results which are provided to the Management of the Group for analysis are prepared mainly under Russian accounting standards, except the segment reporting of the subsidiaries which is prepared under International Financial Reporting Standards.

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

Notes to the Consolidated Financial Statements – 31 December 2016

33 Segment Analysis (continued)

The subsidiaries' activity is controlled by the Group integrally.

Segment reporting of the Group's assets and liabilities as at 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	11,865.2	3,155.2	2,673.4	3,704.6	4,040.4	25,438.8
Total liabilities	8,190.7	4,424.9	3,026.5	3,920.9	3,219.9	22,782.9

Segment reporting of the Group's assets and liabilities as at 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	12,014.3	3,442.1	2,884.4	3,974.2	5,202.1	27,517.1
Total liabilities	9,800.1	4,310.7	2,970.6	3,972.2	4,178.3	25,231.9

Notes to the Consolidated Financial Statements – 31 December 2016

33 Segment Analysis (continued)

Reconciliation of total assets and total liabilities as per the reportable segments with the Group's total assets and total liabilities under IFRS as at 31 December 2016 and 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Total assets	Total liabilities	Total assets	Total liabilities
Total segment assets and liabilities	25,438.8	22,782.9	27,517.1	25,231.9
Financial assets and liabilities netting	(146.7)	(146.7)	(232.2)	(232.2)
Adjustment to staff expenses accrued (bonuses, annual leave, pension liabilities)	—	(3.1)	—	24.8
Adjustment of provision for impairment of debt financial assets	118.8	—	163.1	—
Accounting for derivatives at fair value	(1.8)	(0.7)	(7.1)	(8.1)
Accounting for loans by effective rate method	(18.2)	—	(29.5)	—
Write-down of low value assets	(10.0)	—	(14.0)	—
Adjustment of other provisions	76.1	—	37.6	—
Adjustment of depreciation and initial cost or revalued amount of premises and equipment	(10.9)	—	(19.8)	—
Accounting for financial contracts with embedded derivatives	(3.3)	—	(8.8)	—
Accounting for financing by the effective rate method and early redemption of debt securities in issue	(89.3)	(87.4)	(84.8)	(89.7)
Accrual of expenses on customer loyalty programs	—	13.9	—	10.6
Currency translation of investments in subsidiaries and associates	(3.3)	—	1.8	—
Adjustment for credit related commitments provision	—	(29.1)	—	(36.9)
Adjustment for legal claims provision	—	0.8	—	2.6
Commission income adjustment	4.9	3.8	4.2	2.2
Reclassification of securities between portfolios	—	—	(0.7)	—
Accounting for mortgage loans securitisation	5.5	5.5	7.2	7.2
Adjustment for deferred tax	5.9	3.0	8.1	52.2
Effect of initial recognition of financial instruments at fair value	(4.8)	(2.0)	(5.5)	(3.8)
Other	6.8	6.0	(2.0)	(1.1)
The Group's total assets/liabilities under IFRS	25,368.5	22,546.9	27,334.7	24,959.7

Notes to the Consolidated Financial Statements – 31 December 2016

33 Segment Analysis (continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2016 is as follows:

<i>in billions of Russian Roubles</i>	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Inter- company eliminations	Total
Interest income	925.2	382.8	331.4	469.9	334.5	(72.8)	2,371.0
Interest expense	(424.5)	(206.5)	(133.4)	(172.7)	(162.1)	71.2	(1,028.0)
Intersegment income / (expense)	30.9	(11.1)	(7.5)	(12.3)	—	—	—
Fee and commission income	71.2	112.4	90.8	126.0	56.5	(17.6)	439.3
Fee and commission expense	(44.2)	(12.5)	(8.6)	(17.3)	(16.6)	14.3	(84.9)
Net gains from securities	16.3	—	—	—	9.2	(4.0)	21.5
Net (losses) / gains from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation, other derivatives	(30.9)	0.3	3.6	—	(10.5)	(0.1)	(37.6)
Net gains from operations with precious metals, precious metals derivatives and precious metals accounts translation	4.4	—	—	—	8.8	0.2	13.4
Net result from non-core business activities	35.9	1.3	2.5	0.1	1.1	(37.1)	3.8
Net premiums, claims, benefits and acquisition costs from insurance and pension fund operations	29.3	(9.3)	(7.4)	(8.2)	—	10.6	15.0
Goodwill impairment	—	(0.3)	—	—	—	—	(0.3)
Impairment of premises, equipment and intangible assets	(0.3)	—	—	—	(0.1)	—	(0.4)
Other net operating (losses) / gains	(22.5)	(5.2)	5.0	(22.2)	8.0	(3.9)	(40.8)
Operating income before provision charge for impairment of debt financial assets	590.8	251.9	276.4	363.3	228.8	(39.2)	1,672.0
Net provision charge for impairment of debt financial assets	(127.4)	(36.3)	(40.0)	(68.6)	(67.4)	0.6	(339.1)
Operating income	463.4	215.6	236.4	294.7	161.4	(38.6)	1,332.9
Operating expenses	(255.1)	(104.4)	(94.1)	(127.3)	(112.8)	14.8	(678.9)
Profit before tax (Segment result)	208.3	111.2	142.3	167.4	48.6	(23.8)	654.0
Other disclosures							
Capital expenditure incurred (additions of premises, equipment, intangible assets and investment property)	62.0	10.7	13.6	12.4	15.1	—	113.8
Depreciation of premises and equipment and amortisation of intangible assets	(35.3)	(9.8)	(11.3)	(12.8)	(15.2)	—	(84.4)

Notes to the Consolidated Financial Statements – 31 December 2016

33 Segment Analysis (continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Inter- company eliminations	Total
Interest income	839.2	381.9	322.8	462.9	308.1	(69.0)	2,245.9
Interest expense	(668.0)	(210.1)	(139.1)	(173.1)	(158.1)	68.3	(1,280.1)
Intersegment income / (expense)	4.1	(1.1)	(0.5)	(2.5)	—	—	—
Fee and commission income	62.5	92.0	75.5	109.4	52.0	(15.2)	376.2
Fee and commission expense	(23.4)	(11.5)	(7.8)	(15.6)	(15.9)	11.2	(63.0)
Net gains from securities	12.9	—	—	—	6.0	(3.9)	15.0
Net gains from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation, other derivatives	33.5	—	—	—	15.4	0.4	49.3
Net (losses) / gains from operations with precious metals, precious metals derivatives and precious metals accounts translation	(3.9)	—	—	—	1.7	—	(2.2)
Net result from non-core business activities	24.0	0.5	(0.8)	—	0.9	(25.6)	(1.0)
Net premiums, claims, benefits and acquisition costs from insurance and pension fund operations	16.3	(5.9)	(5.3)	(5.3)	—	9.4	9.2
Goodwill impairment	(1.3)	(0.2)	(1.2)	—	(3.3)	—	(6.0)
Impairment of premises, equipment and intangible assets	(0.4)	—	—	(0.1)	(2.3)	—	(2.8)
Other net operating (losses) / gains	(6.9)	(0.9)	1.5	4.9	2.7	(5.3)	(4.0)
Operating income before provision charge for impairment of debt financial assets	288.6	244.7	245.1	380.6	207.2	(29.7)	1,336.5
Net provision charge for impairment of debt financial assets	(149.2)	(66.2)	(62.1)	(100.3)	(100.3)	7.0	(471.1)
Operating income	139.4	178.5	183.0	280.3	106.9	(22.7)	865.4
Operating expenses	(207.1)	(99.5)	(92.4)	(119.6)	(112.8)	13.5	(617.9)
(Loss) / profit before tax (Segment result)	(67.7)	79.0	90.6	160.7	(5.9)	(9.2)	247.5
Other disclosures							
Capital expenditure incurred (additions of premises, equipment, intangible assets and investment property)	31.8	14.4	20.1	20.0	14.7	—	101.0
Depreciation of premises and equipment and amortisation of intangible assets	(31.5)	(11.4)	(13.2)	(15.0)	(11.2)	—	(82.3)

Notes to the Consolidated Financial Statements – 31 December 2016

33 Segment Analysis (continued)

Reconciliation of profit before tax for the reportable segments with the Group's profit before tax under IFRS for the year ended 31 December 2016 and 31 December 2015 is as follows:

<i>in billions of Russian Roubles</i>	Year ended 31 December	
	2016	2015
Total segments result	654.0	247.5
Adjustment to staff expenses accrued (bonuses, annual leave, pension liabilities)	4.0	(5.0)
Adjustment of provision for impairment of debt financial assets	(31.8)	24.0
Accounting for derivatives at fair value	2.3	5.4
Accounting for loans by effective rate method	10.7	9.6
Write-down of low value assets	4.0	2.0
Adjustment of other provisions	33.2	20.6
Adjustment of depreciation and initial cost or revalued amount of premises and equipment	10.3	1.0
Accounting for financial contracts with embedded derivatives	1.8	1.9
Accounting for financing by the effective rate method and early redemption of debt securities in issue	(1.7)	5.4
Accrual of expenses on customer loyalty programs	(2.3)	(2.6)
Currency translation of investments in subsidiaries and associates	—	10.3
Adjustment for credit related commitments provision	(7.7)	6.3
Adjustment for legal claims provision	1.8	(1.0)
Commission income adjustment	(0.9)	3.4
Reclassification of securities between portfolios	8.8	8.1
Accounting for mortgage loans securitisation	0.1	(0.1)
Effect of initial recognition of financial instruments at fair value	(0.7)	(2.0)
Other	(8.4)	(3.6)
The Group's profit before tax under IFRS	677.5	331.2

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting and estimation methodology according to IFRS.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated as at fair value through profit or loss in IFRS reporting but classified as available-for-sale in statutory accounting records.

The sum of the line Accounting for derivatives at fair value includes adjustments to reflect recognition of embedded derivatives in the consolidated statement of financial position, the creation of CVA/DVA and the bid/offer provisions, as the necessary components of fair value.

For the year ended 31 December 2016 the Group's revenues from customers in the Russian Federation amounted to RR 2,696.0 billion (for the year ended 31 December 2015: RR 2,695.3 billion); revenues from customers in all foreign countries from which the Group derives revenues amounted to RR 375.4 billion (for the year ended 31 December 2015: RR 352.1 billion). For the year ended 31 December 2016 intersegment revenues amounted to RR 57.5 billion (for the year ended 31 December 2015: RR 36.2 billion).

No revenue from transactions with a single external customer or counterparty amounted to 10.0% or more of the Group's total revenue during the year ended 31 December 2016 and 31 December 2015.

34 Financial and Insurance Risk Management

The Bank manages all significant types of risk for the Group, which are identified annually as a result of ongoing procedures for identification and evaluation of significant risks. As of 2016, the Group recognizes following significant types of risks: credit risk of corporate and retail customers, country risk, credit risk of financial institutions, liquidity risk, market risks on the operations on financial markets (interest rate risk, currency risk, commodity risk, risk of market credit spread, volatility risk), the risk of loss due to changes in value of real estate, legal and compliance risk, reputation risk, risk of models, risk of cybersecurity, operational, strategic, regulatory and tax risks.

Due to the development of the insurance and pension business the Group is also exposed to the insurance risk, but level of the risk was insignificant on the scale of the Group business in the reporting period, therefore the relative Group members manage the insurance risk at local level.

The financial and insurance risks are described below.

Risk management system is the part of the overall management system of the Group which aims to provide sustainable development of the Bank and the Group members in line with the approved development strategy.

Basic principles of the risk management system are set in "Strategy for managing risks and capital of Sberbank Group" approved by Supervisory Board.

The main objectives and goals of the risk management system are:

- provision / maintenance of acceptable risk level and level of capital adequacy in order to cover significant risks;
- detection, assessment, aggregation of significant risks of the Group and control over their level;
- provision of effective resources allocation for optimization of the risk / profitability ratio of the Group;
- provision of a single interpretation of risks on the Group level and strategic planning based on the level of risk accepted.

Risk management is performed at four levels defined below:

- first management level (performed by the Supervisory Board of the Bank) – approval of the risk management strategy and the Group's capital management strategy; establishment of appetite for risk and target levels of risk of the Bank and Group; monitoring of compliance with appetite for risk limits and achievement of target levels of risk; evaluation of the effectiveness of risk management and capital adequacy management;
- second management level (performed by the Bank's Executive Board, the Group Risks Committee) – is management of aggregated Group risk; organization of risk management and capital adequacy management; appointment of collective bodies and subdivisions responsible for the management of certain risk groups;
- third management level (performed by collective bodies responsible for the management of certain risk groups) – management of specific types of risk considering limits and requirements established at 1st and 2nd levels of management;
- fourth management level (performed by collective bodies and structural subdivisions of the Bank and members of the Group) – management of specific types of risk of the Bank and members of the Group considering limits and requirements established at 1st, 2nd and 3rd levels of management.

Integrated risk management process includes five core steps:

- risk identification and measurement – aimed to identify all the significant risks which the Group is exposed to;
- developing system for managing significant risks – aimed to allocate functions (or actualize such allocation) of risk management between executives, subdivisions and collective bodies of the Bank and its subsidiaries as well as developing (or actualize such development) methodological framework regulating respective risk management;

34 Financial and Insurance Risk Management (continued)

- forecasting risk exposure level – aimed to define target risk level using risk-metrics in business-plan of the Group and each of its members;
- setting risk appetite for the Group and each of its members – aimed to confirm by the Bank and then by its Supervisory Board maximum allowable risk exposure for the Group and introduction of limit and restriction system that will enable not to exceed the maximum risk level;
- management of aggregated risk level of the Group – aimed to provide correspondence between risk level and target values.

The Group is constantly developing risk management system in order to correspond to the best practices and recommendations of regulators. Thereby risk management methods and processes are continually integrated and improved on aggregate level as well as on the level of specific risks management systems.

The following is a description of the most significant for the Group types of risk management: credit, market, operational and compliance risks.

Credit risk is the risk of losses caused by failure to fulfill, as well as untimely or incomplete fulfillment of financial obligations by debtor in accordance with contract conditions. Among financial obligations mentioned above there are obligations of debtor or funds received including loans to customers, interbank loans, debt securities, other placed funds including obligation to return debt securities, shares and promissory notes, provided by loan agreement, discounted bills, executed bank guarantees which were not compensated by the principal, finance deals with assignment of monetary claim (factoring), rights (claims) obtained in accordance with agreement (cession), mortgages obtained on secondary market, deals of financial assets sale (purchase) with deferred payments (supply of financial assets), paid letter of credit (including uncovered letter of credit), return of cash (assets) in accordance with deal of financial assets purchase with an obligation of their repurchase, claims for financial leasing operations.

The Group's maximum exposure to credit risk is 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. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35. The credit risk is mitigated by collateral and other credit enhancements.

Credit risks include migration credit risk, concentration risk, finance markets counterparty risk and residual risk.

Migration credit risk is the loss risk related to the full or partial loss of financial asset's value (for example, loan or debt security) due to the default or worsening of counterparty credit quality (migration).

Concentration risk (under credit risk) is the risk related to:

- significant loans provided to single borrower or group of connected borrowers;
- loans or other debt financial instruments concentration in certain economic sectors, segments, portfolios or geographical areas, etc.;
- other exposures which can have a similar economic factors sensitivity.

Financial markets counterparty risk is the risk related to the unwillingness or failure of counterparty to pay its obligations under a transaction in full and timely. Counterparty risk relates to credit risk exposure for term deals, which can change in the course of time in line with basic market factors or underlying assets price.

Counterparty risk consists of two components:

- pre-settlement risk which occurs before settlement / transfer of assets, represents the loss risk related to the probability of counterparty to fail to fulfil its obligation during the transaction;
- settlement risk which represents the loss risk related to counterparty's failure to fulfil its obligation after Group's obligations were performed under the contract (by cash payments, securities or other assets transfer) at the settlement date.

Residual risk is the risk remaining upon the Group's risk mitigation methods which could not satisfy expectation in relation to received collateral, due to for example litigation risk or liquidity risk.

34 Financial and Insurance Risk Management (continued)

Credit risk management policy applied by the Group aims at increasing competitive advantage of the Group by expanding the list of counterparties and the range of credit products and financial market products, implementing comprehensive approach to credit risk to maintain or bring down the level of credit risk losses, optimization of credit portfolio structure by industry, region and product.

The Group applies the following basic methods of credit risk management:

- prevention of credit risk by identifying, analyzing and assessing potential risks before entering the transaction creating risk exposure;
- planning the level of credit risk by assessing the level of expected losses;
- implementation of common assessment processes and identification of risks;
- limiting credit risk by setting exposure and / or risk limits;
- structuring of transactions;
- collateral management for transactions on financial markets;
- monitoring and control of credit risk level;
- application of the system of decision-making authority;
- provisions for impairment losses.

In the sphere of credit risk management the Group sets following objectives:

- implementation of comprehensive approach to credit risk management, optimization of Group's credit portfolio structure by industry, region and product in order to limit credit risk level;
- increasing competitive advantage of the Group by more precise assessment of risks taken as well as the implementation of measures aimed at credit risk management including maintaining or bringing down the level of credit risk losses;
- retention of sustainability during expansion of product range of Group members (introduction of more complicated products) in consequence of reasonable assessment and taken risks' management particularly credit risks.

Credit risk management system of the Group is organized on the basis of integrated risk management principles as well as following principles:

- application of modern methods and instruments in credit risk management of the Bank and the Group as a whole developed on the basis of unified approach used for building crediting processes standardized to the maximum taking into account client segmentation by risk profile and minimization of process member's quantity due to centralization and process automation;
- objectivity, concreteness and precision of credit risk assessment, use of reliable actual and statistical information;
- integration of credit risk management process into organizational structure of the Bank and Group members;
- application of unified rules for allocation and delimitation of authorities for credit risk management based on combination of centralized and decentralized approaches;
- independence of departments responsible for credit risk assessment and control from departments that initiate deals generating credit risk;
- compliance with the requirements of the Bank of Russia / bank regulator (for the credit organizations – members of the Group operating outside the Russian Federation) as well as the requirements of the Russian law and/or law of other countries where the Group members operate;
- control and risk limitation as well as control over expected loss of the Group in consequence of borrower/group of related borrowers' default are performed by means of Group limit system.

34 Financial and Insurance Risk Management (continued)

The system of Group credit risk level control and monitoring is performed on the basis of principles stated in Group's internal documents providing preliminary, current and subsequent control over operations subject to credit risk, observance of stated risk limits and timely performance of its actualization.

There is multilevel system of limits for each business line generated in the Group based on the limitation of credit risk for credit operations and operations on financial markets.

For retail credit risks limits which are set on the credit risk of individuals are divided into groups in the following way:

- structure limits (this group includes such limit types as limit of crediting by scheme, limit for the product/group of approved products);
- authority limits (divided into authority limits of collegial body and personal limits);
- limits of risk concentration by the size of credit product provided to the borrower (this group includes the limit of borrower's debt amount);
- limits for the department giving the credit (this group includes the limit of received application amount).

Assessment of the Group's credit risk is made in aggregate, by individual portfolios of credit risk bearing assets, by individual counterparties and groups of counterparties, by country, geographic region and by type of economic activity.

The Group operates a system of internal ratings based on economic-mathematical models for estimating the probability of default of counterparties and transactions. Assessment of credit risks of the Group's counterparties depends on the counterparty category:

- corporate customers, credit institutions, financial companies, small business clients, sovereigns, municipals, insurance and leasing companies are assessed on the basis of the system of credit ratings and expected cash flow models or other significant indicators;
- individuals and micro business clients are assessed based on their creditworthiness in accordance with the Group's internal regulatory documents and express assessment.

The Group's system of credit ratings provides a differentiated assessment of probability of default/ improper execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative (factors of market and external influence, characteristics of management quality, assessment of business reputation and others) factors of credit risk, materiality of their impact on the ability of the counterparty to service its obligations.

The Group's internal regulatory documents provide for a multi-factor approach, the factor list being standardized depending on the counterparty category: risk factors related to counterparty's creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control system, transparency, position of the client in the industry and the region, strength of support from local administration and parent company (in case of a holding) as well as the so-called early warning factors are subject to mandatory monitoring and control. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty/transaction with their subsequent classification ratings.

The Group closely monitors its credit risk concentration and compliance with prudential regulations of the regulator, making analysis and forecast of credit risk level. In analysis, monitoring and management of credit risk concentration the following steps are used:

- keeping the list of related borrowers groups which is based on the developed criteria for identification of legally and economically related borrowers;
- control of large loans per borrower within the group of related borrowers,
- keep control over exposures to industry or country.

Separately the Group monitors country risk which aims to manage and to limit risks related to different countries. Country risk limits are structure risk limits which restrict Group's geographical concentration risk (other than risks related to operations conducted in the Russian Federation) and which do not limit risk for operations with certain counterparties.

34 Financial and Insurance Risk Management (continued)

Collateral is the main instrument decreasing credit risk of non-payment under the credit contract. The Group usually requires collateral for granted loans. Different kinds of collateral could be approved in order to limit credit risk. In accordance with Group's policy collateral for loans provided to legal entities (pledge amount and/or liability amount (limit of responsibilities) through surety agreement and/or guarantee amount) should cover the amount of credit and interests accrued during not less than 3 months.

Pledge policy (as a part of Credit policy) was developed which defines principles and elements of work organization for pledges within lending process.

Pledge policy is concentrated on the improvement of quality of credit portfolio from a collateral perspective. Collateral quality depends on the probability of cash receipt in amount of supporting pledge in case of enforcement or realization of pledge. Collateral quality can be indirectly characterized by the list and materiality of risks conjugated to the pledge and is represented by the range of factors (liquidity, reliability of fair value assessment, impairment risks, susceptibility to the risks of loss and damage, law risks and others).

Pledge amount assessment is performed on the base of internal expert valuation, assessment of independent valuers or pledge amount stated in borrower's financial reports with discount correction. Using surety of creditworthiness legal entities as the collateral requires risk assessment of guarantor as well as borrower's.

At the same time, the Group operates a multi-dimensional system of authority to determine the level of decision-making for each loan application. Each territorial unit is assigned a risk profile, which defines the discretionary powers of the unit to take independent decisions, depending on the risk category of the requested loan. In its turn, the risk category of the requested loan depends on the aggregate risk limit and the risk category of the borrower/group of related borrowers and also on loan product category. Thus, existing systems of limits and decision-making authority allows to optimize the lending process and provides for proper management of credit risk.

Using the macroeconomic scenarios, the Group conducts sensitivity analyses of credit risk level by both counterparty and credit portfolio to identify macro factors of maximum correlation with the counterparties' probability of default. Statistics on radical changes of macro factors is used in stress-scenario for ratings models for the purpose of stress-testing.

As the Group reacts flexibly to the changes in economic situation in the Russian Federation, in 2016 restrictions on implementation of credit transactions with different customer segments, imposed in 2015, were partially removed.

The Group monitors debt recovery at all phases of debt collection. In case of identification of triggers of drop in debt recovery ratio and non-performing loans growth in territorial units, customer or product segments, the optimization of lending/collection process is performed.

Overdue and non-performing debt collection procedures of the Group are built on a principle of maximum automation and standardization, which assures elimination of human factor at various phases of non-performing loans processing and supports usage a unified approach in debt collection process.

In non-performing debt settlement process Group uses instrumental methods, which are consistent with international practice: long-distance communications, visits, debt restructuring, operations with collection agencies, court and enforcement proceedings, etc. Use of one or another method is specified by flexible strategy depending on risk level of client and loan.

Group regularly tests actual debt collection process concerning its compliance with market trends and best practices. Following the results of analysis required amendments in the process are made in order to achieve improvement of recoverability of impaired loans, optimization of debt collection procedures and increase of client service level.

In 2016 the Group in order to optimize and increase the efficiency of management of non-performing debt, transition to a new targeted automated system for collection of non-performing debt took place; the level of process automation increased. Also the Group actively develops new technologies of interaction with clients in order to optimize non-performing debt collection procedures.

34 Financial and Insurance Risk Management (continued)

Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices and other market indicators. The main goal of market risk management is the optimization of market risk level within the Group, compliance of the risk level with limits set and minimization of loss in case of unfavorable scenario realization.

The Group categorizes market risk into:

- **Currency risk** is the risk of losses or reduction of income due to fluctuations in the prevailing foreign currency exchange rates and/or precious metals exchange rates;
- **Interest rate risk** is the risk of losses or reduction of income due to fluctuations in interest rates;
- **Equity price risk** is the risk of losses or reduction of income due to changes in fair value of equity securities, for example, ordinary and preference shares;
- **Commodity risk** is the risk of losses or reduction of income due to changes in value of commodity assets, excluding precious metals;
- **Volatility risk** is the risk of losses or reduction of income due to changes in price volatility of underlying assets of financial instrument;
- **Risk of market credit spread** is the risk of losses or reduction in income due to changes in level of market credit spread.

For the purposes of accounting and market risk management the Group differentiates operations of Trading book and Banking book on the basis of method and purpose of formation, authority of divisions involved in process of management of books, the composition of market risks associated to it, and approaches to its management. Authority to manage the market risk are divided between Market Risk Committee (MRC) of the Bank and Assets and Liabilities Committee (ALCO) according to areas of responsibility (trading and non-trading operations).

Market risk management is carried out in accordance with the "Policy for managing market and credit risk operations on financial markets" and "Policy for managing interest rate and currency risk of the banking book".

Market risk on the operations on financial markets

Among credentials of MRC there is management over market risk of the trade operations on financial markets.

Market risks are controlled by monitoring of operations on foreign exchange and securities market by departments independent of trading divisions. Monitoring of market risks implies continual control over trading deals at all steps of operational process.

Market risk management of the trade operations in Group is performed through the system of authorized bodies, making decisions depending on risk level and portfolio hierarchy, such system allows to reach efficiency and flexibility of decision making.

The Group manages its market risks on a portfolio basis. Main management tool is the setting of market risk limits on individual portfolios. Portfolio consists of operations on financial markets with common characteristics, such as allowable risks, currency, types of instruments, restrictions used and others. Market risk limits are established in accordance with requirements of the Bank of Russia, the Basel Committee on Banking Supervision and best banking market risk management practices.

The Group derives following most important types of market risk of the trade operations.

Interest rate risk on the trade operations. The Group is exposed to interest rate risk on the Trading book due to changes in the value of debt securities and derivative financial instruments due to changes in interest rates.

34 Financial and Insurance Risk Management (continued)

To limit the interest rate risk on debt securities MRC, as well as staff authorized by MRC set limits on the securities portfolio structure by maturity, sensitivity limits to changes in interest rates, limits on maximum loss (stop-loss), and limits on the value at-risk (VaR) for operations with debt securities.

In order to limit interest rate risk on derivatives limits on maximum loss (stop-loss), limits on the value-at-risk (VaR), sensitivity limits to the changes in interest rates are set, as well as restrictions on types and maximum terms of derivative financial instruments.

The risk of market credit spread. The Group takes the risk of losses due to adverse changes in market prices for debt securities and derivative financial instruments, which current fair value depends on the market valuation of the credit quality of the issuer of debt securities / counterparty to the transaction. The Group manages its risk by setting limits on sensitivity to changes in market credit spread broken down by: currency of the asset, country of the issuer and maturity. Limits on maximum loss (stop-loss) and limits on the value-at-risk (VaR) are also set.

Equity price risk. The Group is exposed to equity price risk through changes in fair value of corporate equity securities as well as its derivatives in case of Group having positions in them. In order to limit equity price risk the MRC and employees authorized by MRC set common position limits, limits on maximum loss (stop-loss), limits on the value-at-risk (VaR), sensitivity limits.

Currency risk. In order to limit the foreign exchange risk of financial market operations MRC as well as employees authorized by MRC set limits for open foreign exchange positions for all operations, limits on maximum loss (stop-loss) which are sensitive to currency risk as well as limits on the value-at-risk (VaR).

Commodity risk. In order to limit commodity risk of Trading book MRC, as well as staff, authorized by MRC, limit the list of commercial products for trade in portfolio, set limits on the volume of investments in individual commodities, limits on maximum loss (stop-loss), limits on the value-at-risk (VaR).

Volatility risk. The risk arises from the Group's position in options on underlying assets: currencies, interest rates, equities and commodities. For options limits are set on the stress test and sensitivity coefficients, depending on the underlying asset. Sensitivity of the second order are taken into account in the limit on the value-at-risk (VaR).

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk. This metric allows to estimate the maximum financial loss of the portfolio with a defined confidence level of probability and time horizon on a "normal" market. "Normal" market is characterized by the dynamics of the market factors (currency quotes / shares / commodities, interest rates) in the situation of the lack of a systemic crisis in the economy / banking sector of the country or group of countries, or the negative facts / events that can cause a significant change in market factors, and, consequently, the value of positions in financial instruments.

VaR is calculated using the following assumptions:

- range of the historical data used for calculations – 2 years;
- VaR is calculated over a 10-day period, i.e. an average period when it is possible to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected maximum once every 100 periods.

VaR is subject to regular back-testing process at each portfolio level in accordance with the formal procedure, which is designed to meet requirements of the Basel Committee on Banking Supervision.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses accepted intra-day risks.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

The table below shows the types of risk calculation using the VaR methodology as at 31 December 2016:

<i>In billions of Russian Roubles</i>	Value as at 31 December 2016	Impact on equity	Impact on net profit
Risk on debt securities portfolio	37.5	1.3%	6.9%
Equity price risk	0.1	0.0%	0.0%
Currency risk	3.3	0.1%	0.6%
Commodity risk	0.1	0.0%	0.0%
Market risk including diversification effect	40.1	1.4%	7.4%
Diversification effect	0.9	0.0%	0.2%

The table below shows the types of risk calculation using the VaR methodology as at 31 December 2015:

<i>In billions of Russian Roubles</i>	Value as at 31 December 2015	Impact on equity	Impact on net profit
Risk on debt securities portfolio	85.0	3.2%	36.0%
Equity price risk	0.3	0.0%	0.1%
Currency risk	11.7	0.4%	4.9%
Commodity risk	0.2	0.0%	0.1%
Market risk including diversification effect	96.4	3.6%	40.8%
Diversification effect	0.6	0.0%	0.2%

Market risk on non-trading positions

Interest rate risk on non-trading assets and liabilities. The Group takes on interest rate risk on non-trading assets and liabilities, or interest rate risk of the banking book, - the risk of financial losses due to adverse changes in interest rates. The risk includes:

- the risk resulting from the mismatch of assets and liabilities maturities (interest rate repricing) sensitive to interest rate changes;
- basic risk resulting from a mismatch in the degree of interest rate sensitivity of assets and liabilities with similar maturity (repricing period);
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Interest rate risk is assessed using the standardized shock in accordance with Basel Committee for Banking Supervision recommendations. Forecasting of possible changes in interest rates is carried out separately for Russian rouble and foreign currencies.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

The table below shows the impact on annual net interest income of shocks in interest rates as at 31 December 2016 and 31 December 2015. Change in net interest income is calculated as revaluation of assets and liabilities with expected maturity of less than one year.

	Decrease in interest rates		Increase in interest rates	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Russian Rouble				
Change in interest rates, bps	(400)	(400)	400	400
Change in net interest income, billions of Russian Roubles	100.3	125.5	(100.3)	(125.5)
Turkish Lyra				
Change in interest rates, bps	(400)	(400)	400	400
Change in net interest income, billions of Russian Roubles	20.6	28.1	(20.6)	(28.1)
US Dollar				
Change in interest rates, bps	(200)	(200)	200	200
Change in net interest income, billions of Russian Roubles	(8.8)	(13.0)	8.8	13.0
Euro				
Change in interest rates, bps	(200)	(200)	200	200
Change in net interest income, billions of Russian Roubles	(4.1)	(5.0)	4.1	5.0

The Group interest rate and currency risk of the banking book management is aimed to limit the negative impact of interest rate and currency risks of the banking book on the Group's operations and the Group's members.

The objectives of the interest rate and currency risks management are:

- optimization of the risk-return;
- minimization of potential losses from fluctuations in interest rates and foreign currency exchange rates at the selected risk level of the Group and members of the Group in respect of each of the currencies;
- stabilization of the net interest margin, regardless of market conditions;
- compliance with the Bank of Russia and local regulators.

As part of the interest rate risk management starting from 2016 in the Group's business plan there are the target position on the interest rate risk in Russian Roubles and targets for the volume and maturity structure of the assets and liabilities to ensure the achievement of the target interest position. Reporting of interest rate risk and interest position management issues are reviewed regularly by ALCO.

Currency risk of non-trading assets and liabilities.

The Group is exposed to currency risk on non-trading assets and liabilities, or the foreign currency exchange rate risk of the banking book, due to the impact of the operations of the banking book in the open currency position (OCP). The main sources of foreign currency exchange risk of the banking book are:

- provisioning for impairment of the loans nominated in foreign currencies;
- restructuring of the loans resulting in a debt currency change;
- income and expenses in foreign currencies.

Limits of open currency positions are set to limit currency risk for the Bank units and subsidiaries.

The Bank's Treasury consolidates the Group's total open foreign currency position and takes measures to reduce foreign currency exchange exposure on the banking book transactions on a daily basis.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

Methodology of valuation

To assess the interest rate and currency risks of the banking book the Group mainly uses the following metrics:

- interest rate gap reflects the overall structure of the interest rate maturity for all balance sheet and off-balance sheet items with a breakdown of the nominal volume of assets and liabilities at predetermined time intervals on the basis of periods of interest rate changes based on the customers' behavior, or according to the contract terms;
- net interest income sensitivity allows to quantify the possible impact of changes in interest rates on net interest income;
- regulatory OCP reflects the structure of open positions by the currencies for the Group and the Group members which is calculated in accordance with the requirements of the Bank of Russia;
- Economic OCP reflects the sensitivity of profit before tax to foreign currency exchange rate changes;
- Economic capital, is required to cover the possible negative impact of changes in interest rates and foreign currency exchange rates on equity in the stress scenario.

The table below summarizes the Group's exposure to foreign exchange risk in respect of financial assets, liabilities and derivatives as at 31 December 2016. Foreign exchange risk on forward and future contracts is represented by their discounted positions. Foreign exchange options are disclosed in the amount that reflects theoretical sensitivity of their fair value to reasonable change in exchange rates. Commodity options are shown at their fair value in relative settlement currency. Equity instruments are classified based on currency of the country of issuer.

<i>in billions of Russian Roubles</i>	Russian Roubles	US Dollars	Euro	Turkish Lyra	Other	Total
Assets						
Cash and cash equivalents	1,639.0	472.6	264.4	67.0	117.8	2,560.8
Mandatory cash balances with central banks	154.9	113.9	57.9	24.2	51.1	402.0
Financial assets at fair value through profit or loss (less fair value of derivatives)	346.6	46.5	0.4	1.8	3.6	398.9
Due from banks	620.7	227.0	46.8	0.1	70.8	965.4
Loans and advances to customers	11,082.3	3,957.0	1,160.4	791.1	370.5	17,361.3
Securities pledged under repurchase agreements	16.1	0.3	0.5	96.8	0.2	113.9
Investment securities available-for-sale	1,032.1	380.1	144.4	27.7	74.6	1,658.9
Investment securities held-to-maturity	300.5	200.3	13.1	26.5	5.4	545.8
Other financial assets	204.2	52.8	42.9	10.6	4.0	314.5
Total financial assets	15,396.4	5,450.5	1,730.8	1,045.8	698.0	24,321.5
Liabilities						
Due to banks	230.0	108.8	165.6	25.5	32.0	561.9
Due to individuals	8,672.0	1,924.5	1,231.0	359.9	262.2	12,449.6
Due to corporate customers	2,676.6	2,488.1	535.0	312.4	223.1	6,235.2
Debt securities in issue	572.3	414.5	97.8	45.4	31.0	1,161.0
Other borrowed funds	—	151.9	70.6	25.9	13.0	261.4
Financial liabilities at fair value through profit or loss other than debt securities in issue (less fair value of derivatives)	13.7	16.5	0.8	—	0.2	31.2
Other financial liabilities	224.8	28.7	13.0	39.3	6.8	312.6
Subordinated debt	506.3	227.6	0.6	—	5.4	739.9
Total financial liabilities	12,895.7	5,360.6	2,114.4	808.4	573.7	21,752.8
Net financial assets/(liabilities)	2,500.7	89.9	(383.6)	237.4	124.3	2,568.7
Net derivatives	(84.1)	(147.5)	397.4	(68.4)	(72.5)	24.9
Credit related commitments and performance guarantees before provision for impairment (Note 35)	2,704.2	908.1	397.7	651.1	97.5	4,758.6

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

The table below summarizes the Group's exposure to foreign exchange risk in respect of financial assets, liabilities and derivatives as at 31 December 2015.

<i>in billions of Russian Roubles</i>	Russian Roubles	US Dollars	Euro	Turkish Lira	Other	Total
Assets						
Cash and cash equivalents	1,161.1	709.6	265.3	49.3	148.3	2,333.6
Mandatory cash balances with central banks	118.5	141.4	53.4	11.6	63.0	387.9
Financial assets at fair value through profit or loss (less fair value of derivatives)	274.4	53.6	1.4	0.6	2.0	332.0
Due from banks	200.8	404.5	32.1	0.1	113.1	750.6
Loans and advances to customers	11,326.7	4,787.4	1,131.3	1,016.4	466.0	18,727.8
Securities pledged under repurchase agreements	56.9	2.5	—	160.7	1.9	222.0
Investment securities available-for-sale	922.0	696.5	147.5	63.1	45.2	1,874.3
Investment securities held-to-maturity	248.6	184.7	12.0	32.1	0.3	477.7
Other financial assets	423.9	121.6	93.1	13.6	18.8	671.0
Total financial assets	14,732.9	7,101.8	1,736.1	1,347.5	858.6	25,776.9
Liabilities						
Due to banks	590.9	120.9	206.5	79.4	48.2	1,045.9
Due to individuals	7,634.0	2,216.8	1,497.0	411.2	284.7	12,043.7
Due to corporate customers	2,898.7	3,471.1	688.8	344.1	351.9	7,754.6
Debt securities in issue	649.5	496.0	138.2	52.5	42.3	1,378.5
Other borrowed funds	—	262.9	88.0	46.5	0.6	398.0
Financial liabilities at fair value through profit or loss other than debt securities in issue (less fair value of derivatives)	13.2	15.9	0.3	—	—	29.4
Other financial liabilities	229.7	92.3	20.1	48.8	6.7	397.6
Subordinated debt	506.4	285.9	7.8	—	6.4	806.5
Total financial liabilities	12,522.4	6,961.8	2,646.7	982.5	740.8	23,854.2
Net financial assets/(liabilities)	2,210.5	140.0	(910.6)	365.0	117.8	1,922.7
Net derivatives	(484.2)	(117.8)	879.6	(164.3)	24.3	137.6
Credit related commitments and performance guarantees before provision for impairment (Note 35)	2,837.3	1,176.8	423.3	814.0	103.8	5,355.2

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

Liquidity risk. Liquidity risk is defined as the risk of inability of the Group to finance its performance, i.e. to ensure the growth of assets and/or fulfill its obligations as far as they arise on the condition of compliance to the requirements of the local regulator in the normal course of business as well as during stress situations.

The Group liquidity risk management is aimed to ensure timely and complete fulfillment of present payment obligations of all Group members on the condition of absolute compliance to the requirements of the local regulator.

The Group is subject to the liquidity risk since it does not maintain cash resources to meet one-time fulfillment of all of its obligations. Instead of that the Group performs an assessment of sufficient level of cash and liquidity reserves necessary for the fulfillment of obligations at a different time horizons on the basis of current market situation, a forecast of the future dynamics of items in the statement of financial position and accrued historical data.

34 Financial and Insurance Risk Management (continued)

To minimize the liquidity risk the Group:

- maintains a stable and diversified liabilities structure including resources attracted from different groups of investors and clients in term instruments as well as in funds on demand;
- invests in highly liquid / liquid financial assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity;
- controls the usage of the current liquidity reserves and initiates an increase in those reserves in case of need;
- maintains cooperation with counterparties on financial markets to have an opportunity to attract funds in a short period of time in case of need.

Policy and Procedures. The Bank's Treasury performs analysis and forecasts and advises Management on regulation of short-term, medium-term and long-term liquidity to satisfy Group members needs. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of "Policy of Sberbank of Russia for liquidity risk management" and the guidelines of the Bank of Russia, local regulators and the Basel Committee for Banking Supervision. The Bank performs control and management over liquidity on the level of the Group including the coordination of all external borrowings of the Group members in order to minimize the cost of funding and taking into the account the current macroeconomic environment and market conditions.

The managing bodies of banking subsidiaries are responsible for efficient managing and controlling the liquidity of banking subsidiaries. They are also responsible for monitoring limits and controls required by the Group's internal regulations and the requirements of local regulators. Assessment, management and control of banking subsidiaries liquidity risk are performed in accordance with unified Group standards.

Group liquidity risk management is based on the initiative of the Bank of Russia, local regulators and the recommendations of the Basel Committee for Banking Supervision in the field of liquidity risk assessment and management instruments:

- forecasting key balance sheet line items of Group members by major currencies to ensure the necessary volume of liquid assets to cover liquidity deficit and liquidity requirements stated by local regulators;
- forecasting assets and liabilities structure for different scenarios of Group balance development to control the required volume of liquid assets in medium-term and long-term perspective in the context of funding planning;
- control and forecasting of amounts of the main liquidity factors on the basis of "Standard of Sberbank Group for liquidity risk-metrics calculation";
- settlement of limits for risk metrics by the individual Group members as well as the Group in a whole including but not limited to components of risk appetite;
- stress-testing of liquidity profile by analysis of different scenarios and stress phases as well as planning activities to maintain the required liquidity level during crisis.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

The analysis of undiscounted cash flows as at 31 December 2016 is set out below:

<i>In billions of Russian Roubles</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	330.4	83.3	11.2	115.8	40.8	581.5
Due to individuals	3,773.2	4,707.8	2,170.2	1,871.0	198.8	12,721.0
Due to corporate customers	3,954.1	843.6	559.8	892.0	89.8	6,339.3
Debt securities in issue	125.2	487.3	156.5	305.9	192.0	1,266.9
Other borrowed funds	38.5	98.1	45.8	54.1	32.2	268.7
Gross settled derivatives:						
- inflows	(629.4)	(461.1)	(74.6)	(125.7)	(53.4)	(1,344.2)
- outflows	639.8	504.6	87.2	168.9	61.4	1,461.9
Net settled derivatives	5.8	6.3	21.9	23.8	9.0	66.8
Other financial liabilities	252.2	33.0	24.6	1.4	1.8	313.0
Subordinated debt	0.1	9.3	46.7	609.5	247.8	913.4
Total liabilities	8,489.9	6,312.2	3,049.3	3,916.7	820.2	22,588.3
Credit related commitments and performance guarantees before provision	4,758.6	—	—	—	—	4,758.6

The analysis of undiscounted cash flows as at 31 December 2015 is set out below:

<i>In billions of Russian Roubles</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	445.5	172.2	99.9	367.6	74.3	1,159.5
Due to individuals	3,989.3	3,937.5	2,503.2	1,664.9	233.8	12,328.7
Due to corporate customers	4,507.7	1,381.8	791.9	1,000.6	238.2	7,920.2
Debt securities in issue	129.7	392.7	211.3	334.2	458.0	1,525.9
Other borrowed funds	64.4	118.0	103.4	78.2	43.2	407.2
Gross settled derivatives:						
- inflows	(430.1)	(548.5)	(72.9)	(50.9)	(137.1)	(1,239.5)
- outflows	546.9	621.3	118.4	73.3	166.8	1,526.7
Net settled derivatives	16.3	60.0	26.5	53.5	19.9	176.2
Other financial liabilities	376.5	28.6	59.3	22.6	90.0	577.0
Subordinated debt	—	7.4	47.4	128.0	860.4	1,043.2
Total liabilities	9,646.2	6,171.0	3,888.4	3,672.0	2,047.5	25,425.1
Credit related commitments and performance guarantees before provision	5,355.2	—	—	—	—	5,355.2

34 Financial and Insurance Risk Management (continued)

Principles that are used to analyze liquidity position presentation and manage the Group liquidity risk management are based on the Bank's of Russia prudential initiatives and the Bank's practice:

- cash and cash equivalents represent highly liquid assets and are classified as "On demand and less than 1 month";
- trading securities, securities designated as at fair value through profit or loss and highly liquid portion of investment securities available-for-sale are considered to be liquid assets as these securities could be easily converted into cash within short period of time. Such financial instruments are disclosed in the analysis of liquidity position as "on demand and less than 1 month";
- investment securities available-for-sale which are less liquid are disclosed according to remaining contractual maturities (for debt instruments) or as "No stated maturity / overdue" (for equities);
- investment securities held-to-maturity including those pledged under repurchase agreements are classified based on the remaining contractual maturities;
- highly liquid portion of securities pledged under repurchase agreements is disclosed based on the remaining maturities of repurchase agreements;
- loans and advances to customers, amounts due from banks, other assets, debt securities in issue, amounts due to banks, other borrowed funds and other liabilities are included into analysis of liquidity position based on remaining contractual maturities (for loans and advances to customers "No stated maturity / overdue" category represents only actual payments which were overdue);
- term deposits of individuals are not disclosed as "On demand and less than 1 month" although individuals have a right to withdraw money from any account, including term deposits, before maturity date, losing the right to accrued interest;
- diversification of balances due to individuals and corporate customers by number and type of depositors and the past experience of the Group indicate that such balances provide a long-term and stable source of funding. As a result in the analysis of liquidity position balances due to individuals and corporate customers are allocated on the basis of expected time of funds outflow which is based on statistical data accumulated by the Group during the previous periods and assumptions regarding the "permanent" part of current account balances;
- assets and liabilities other than those discussed above are generally classified on the basis of their contractual maturities.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

The analysis of liquidity position of the Group's assets and liabilities as at 31 December 2016 is set out below.

<i>in billions of Russian Roubles</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity/ overdue	Total
Assets							
Cash and cash equivalents	2,560.8	—	—	—	—	—	2,560.8
Mandatory cash balances with central banks	167.7	72.3	35.8	103.1	23.1	—	402.0
Financial assets at fair value through profit or loss	414.4	39.5	57.0	64.1	30.5	—	605.5
Due from banks	436.7	471.0	28.0	29.2	0.5	—	965.4
Loans and advances to customers	796.9	1,615.1	1,986.9	5,137.9	7,507.1	317.4	17,361.3
Securities pledged under repurchase agreements	80.4	1.5	0.1	4.3	27.6	—	113.9
Investment securities available-for- sale	1,607.4	19.1	8.1	5.9	17.2	1.2	1,658.9
Investment securities held-to- maturity	3.3	88.6	30.1	132.8	291.0	—	545.8
Deferred income tax asset	—	—	—	—	—	13.9	13.9
Premises and equipment	—	—	—	—	—	482.9	482.9
Assets of the disposal groups and non-current assets held for sale	5.8	—	—	—	—	—	5.8
Other assets	355.4	39.8	44.7	10.5	27.2	174.7	652.3
Total assets	6,428.8	2,346.9	2,190.7	5,487.8	7,924.2	990.1	25,368.5
Liabilities							
Due to banks	330.3	82.1	10.6	101.2	37.7	—	561.9
Due to individuals	3,399.1	2,452.8	1,143.3	4,908.2	546.2	—	12,449.6
Due to corporate customers	1,428.1	392.8	223.3	3,913.9	277.1	—	6,235.2
Debt securities in issue	121.7	477.8	144.5	270.4	146.6	—	1,161.0
Other borrowed funds	37.0	95.8	43.8	49.9	34.9	—	261.4
Financial liabilities at fair value through profit or loss other than debt securities in issue	55.7	44.4	33.8	66.5	12.5	—	212.9
Deferred income tax liability	—	—	—	—	—	55.1	55.1
Liabilities of the disposal groups	0.8	—	—	—	—	—	0.8
Other liabilities	270.8	48.7	46.9	30.9	436.9	34.9	869.1
Subordinated debt	0.1	8.4	44.5	509.7	177.2	—	739.9
Total liabilities	5,643.6	3,602.8	1,690.7	9,850.7	1,669.1	90.0	22,546.9
Net liquidity gap	785.2	(1,255.9)	500.0	(4,362.9)	6,255.1	900.1	2,821.6
Cumulative liquidity gap as at 31 December 2016	785.2	(470.7)	29.3	(4,333.6)	1,921.5	2,821.6	—

As a part of liquidity risk management framework the Group maintains significant volume of liquidity reserves mostly in market and non-market collateral eligible for refinancing instruments of the Bank of Russia.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

The analysis of liquidity position of the Group's assets and liabilities as at 31 December 2015 is set out below.

<i>in billions of Russian Roubles</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity/ overdue	Total
Assets							
Cash and cash equivalents	2,333.6	—	—	—	—	—	2,333.6
Mandatory cash balances with central banks	177.9	72.3	35.4	76.1	26.2	—	387.9
Financial assets at fair value through profit or loss	388.3	119.0	159.3	140.3	59.9	—	866.8
Due from banks	662.3	40.7	22.9	24.6	0.1	—	750.6
Loans and advances to customers	833.5	1,894.6	2,356.3	6,120.2	7,221.9	301.3	18,727.8
Securities pledged under repurchase agreements	149.5	—	—	41.3	31.2	—	222.0
Investment securities available-for- sale	1,845.5	6.8	8.4	4.0	8.9	0.7	1,874.3
Investment securities held-to- maturity	0.8	15.6	31.2	170.1	260.0	—	477.7
Deferred income tax asset	—	—	—	—	—	17.3	17.3
Premises and equipment	—	—	—	—	—	499.2	499.2
Assets of the disposal groups and non-current assets held for sale	—	212.7	—	—	—	—	212.7
Other assets	707.2	41.4	22.4	29.8	47.0	117.0	964.8
Total assets	7,098.6	2,403.1	2,635.9	6,606.4	7,655.2	935.5	27,334.7
Liabilities							
Due to banks	433.6	172.6	84.8	308.5	46.4	—	1,045.9
Due to individuals	3,640.8	2,531.0	1,572.7	3,729.5	569.7	—	12,043.7
Due to corporate customers	2,676.5	661.1	303.4	3,343.3	770.3	—	7,754.6
Debt securities in issue	128.2	383.0	197.6	308.2	361.5	—	1,378.5
Other borrowed funds	64.3	115.3	102.7	76.2	39.5	—	398.0
Financial liabilities at fair value through profit or loss other than debt securities in issue	82.8	115.3	59.1	97.6	71.8	—	426.6
Deferred income tax liability	—	—	—	—	—	132.0	132.0
Liabilities of the disposal groups	—	185.9	—	—	—	—	185.9
Other liabilities	334.2	59.5	16.6	30.5	320.0	27.2	788.0
Subordinated debt	—	6.7	44.5	113.6	641.7	—	806.5
Total liabilities	7,360.4	4,230.4	2,381.4	8,007.4	2,820.9	159.2	24,959.7
Net liquidity gap	(261.8)	(1,827.3)	254.5	(1,401.0)	4,834.3	776.3	2,375.0
Cumulative liquidity gap as at 31 December 2015	(261.8)	(2,089.1)	(1,834.6)	(3,235.6)	1,598.7	2,375.0	—

34 Financial and Insurance Risk Management (continued)

Insurance risk. The main risks that the Group is exposed to are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected;
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected;
- Longevity risk – risk of loss arising due to the annuitant living longer than expected;
- Investment return risk – risk of loss arising from actual returns being different than expected;
- Expense risk – risk of loss arising from expense experience being different than expected;
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- *Mortality and morbidity rates*

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type. An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

- *Longevity*

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type. An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

- *Investment return*

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

- *Expenses*

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

- *Lapse and surrender rates*

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends. An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

- *Discount rate*

Life insurance and pension liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates and interest rates on Russian federal loan bonds (OFZ bonds), adjusted for the Group's own risk exposure. A decrease in the discount rate will increase the value of the life insurance and pension liabilities and therefore reduce profits for the shareholders.

Notes to the Consolidated Financial Statements – 31 December 2016

34 Financial and Insurance Risk Management (continued)

- *Minimal interest guarantees*

According to the current legislation the Group has a liability for at least zero rate interest return on assets covering pension contribution received from Pension Fund of the Russian Federation, non-state pension funds and from depositors under the programme of non-state pension provisions. Financial responsibility of the Group will include non-negative investment return over assets covering pension liabilities during each five years period of contract term starting from 1 January 2015.

Sensitivity analysis

The following analyzes the possible changes in the key assumptions used in the calculation of insurance liabilities under contracts of life insurance and investment life insurance contracts, provided that the other assumptions are constant. This analysis reflects the impact on gross and net liabilities, profit before tax and equity of the Group. Correlation of the assumptions has a significant impact on the procedure for determining final liability for claims, however, to demonstrate the impact due to changes the assumptions need to be changed individually. Changes in the assumptions are not linear. Sensitivity of the information will also vary depending on the current economic assumptions.

Effect of changes in the key assumptions as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Change of assumptions	Increase/ (decrease) in gross liabilities	Increase/ (decrease) in net liabilities	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
Mortality/morbidity	+10%	1.5	1.5	(1.5)	(1.2)
Mortality/morbidity	-10%	(1.5)	(1.5)	1.5	1.2
Expenses	+20%	0.3	0.3	(0.3)	(0.3)
Expenses	+10%	0.2	0.2	(0.2)	(0.1)
Discount rate	+50%	(1.5)	(1.5)	1.5	1.2
Discount rate	+25%	(0.8)	(0.8)	0.8	0.6

Effect of changes in the key assumptions as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Change of assumptions	Increase/ (decrease) in gross liabilities	Increase/ (decrease) in net liabilities	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
Mortality/morbidity	+10%	1.0	1.0	(1.0)	(0.8)
Mortality/morbidity	-10%	(1.0)	(1.0)	1.0	0.8
Expenses	+20%	0.2	0.2	(0.2)	(0.2)
Expenses	+10%	0.1	0.1	(0.1)	(0.1)
Discount rate	+50%	(5.6)	(5.6)	5.6	4.5
Discount rate	+25%	(2.9)	(2.9)	2.9	2.4

34 Financial and Insurance Risk Management (continued)

Operational Risk. Operational risk is the risk of Group losses caused by defects of internal processes, functioning of informational systems, unapproved/unlawful actions or mistakes of employees as well as due to external events.

Operational risk management system is defined by the Policy for operational risk management and aimed at prevention of such risk or maximum possible decrease of potential loss danger (direct and/or related) connected to internal process organization and external factors (events), measurement of operational risk for the calculation of necessary regulatory and economic capital as well as generation of adequate system of internal control.

Operational risk management process in Group includes following basic phases:

- operational risk identification;
- operational risk assessment;
- analysis of problem zones of processes, development of solution and decision-making concerning optimization / change in processes in order to decrease operational risk level;
- operational risk monitoring;
- control and/or decrease of operational risk.

In order to perform the phases mentioned above such operational risk management instruments as collection of internal data concerning losses caused by the realization of operational risk incidents, self-appraisal of departments and scenario analysis for operational risks are integrated in the Group.

Risk-coordinators were appointed in all organization departments of the Bank and group members who are employees whose composition of functions includes interaction with operational risk departments concerning questions of identification, measurement, monitoring and control over operational risk. In particular risk-coordinators inform about realized incidents of operational risk as well as measure potential risks during self-appraisal.

In order to monitor operational risk the Group uses the system of reports for the management and collegial bodies, involved in risk management process. Operational risk reporting is formed on daily, monthly and quarterly basis.

Evaluation of risk data and incurred losses allow to identify areas of risk concentration for further development of measures which reduce the Group's risk level. In 2016 Bank continued to implement measures to reduce risks. These activities are aimed at both modification of the existing processes and technologies of the transactions and increase in employees discipline. Risk of theft of funds from customer's accounts, risk of theft of self-service machines and cash inside them, risk of errors of personnel when analyzing applications of corporate clients on loan grant are reduced. Regular monitoring of the status of the measures implementation and the level of residual risk is performed by both the structural units and the operational risk departments, as well as by the management and collegial bodies of the management of the Bank and the Group members.

In order to prevent or/and decrease losses arised from operational risk the Group has developed and used mechanisms and procedures such as overall reglamentation of business-processes and procedures, segregation of duties, rules and procedures for deals and transactions execution, control over credit limit discipline, action plan for information security, continuity, improvement of an audit procedures and quality control over performance of automatized systems and hardware complex, property and assets insurance, ongoing professional development of staff across the Group's hierarchy, etc.

34 Financial and Insurance Risk Management (continued)

Compliance Risk. Compliance risk is the risk of legal or other regulator bodies' sanctions, material finance loss or loss to reputation the Bank or Group member may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and code or conduct applicable to its banking activities.

The Group's main focus areas in the compliance risk management are as follows:

- prevention of abuse of authority and corruption of the Group employees;
- avoidance and regulation of conflicts of interest which appear in the Group normal course of activity;
- anti-money laundering and financing of terrorism;
- compliance with financial markets license and other regulations;
- market behavior and fair play compliance during the global market trading, prevention of unfair business practice (insider trading, price manipulation and etc.);
- compliance with economic sanctions and restrictions set up by the Russian Federation, other countries and international organizations;
- assurance of customer rights, including investment activity.

As a result of work in those areas Group has developed and approved internal compliance documents and control procedures. Compliance control is organized consistently with involvement of all Group employees and is performed continuously.

Among the key events in the area of compliance risk management in 2016 were the following:

- new organizational structure of the Compliance Division is formed in order to optimize the production process in the area of compliance;
- additional control procedures in order to avoid the involvement of the Bank in the process of anti-money laundering and financing of terrorism are implemented;
- a set of measures to bring the activities of the Bank in compliance with the new legislation (including foreign legislation on the financial markets, which has extraterritorial effect) is developed;
- additional procedures in the field of managing conflict of interest and anti-corruption in the Bank are implemented, Bank's standards for disclosure of potential conflicts of interest and the order of treatment of gifts are approved;
- measures aimed at improving the process of identifying the subjects of economic sanctions among the clients of the Bank are implemented, as well as clarification of decision-making mechanisms in respect of potential transactions (operations), directly or indirectly related to the Islamic Republic of Iran;
- training courses on areas of compliance are designed and updated, and also trainings are organized within these courses for all employees of the Bank on a regular basis, including a training course "Compliance" for Bank's executives (middle and line management) on the basis of the Sberbank Corporate University;
- compliance risk monitoring and assessment of the maturity of compliance risk management system of the Group was held.

35 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of the claims in excess of the amounts already provided for in these consolidated financial statements. For the movements in the provision for legal claims refer to Note 22.

PPF Management LLC filed a claim in the US District Court of the Southern District of New York against the Bank for reimbursement of damages in the amount of USD 750 million caused according to the plaintiff by withdrawal of shares of OJSC Pavlovskgranit from the owner. The Bank acted strictly in accordance with the Russian legislation and in the best interest of the Banks' shareholders during the recovery of the non-performing loan, which is confirmed by subsequent decisions in the courts of the Russian Federation. The management and legal advisors of the Bank assess the risk of outflow of economic resources on PPF Management LLC claim as insignificant.

PJSC Transneft filed a claim in the Moscow Arbitration Court against the Bank demanding to void the derivative deal concluded between the plaintiff and the Bank under the General Agreement for Derivative Transactions on the financial markets. The amount of the contested transaction is RR 66 billion. The deal was settled and closed, but according to PJSC Transneft, the Bank acted unfairly at the inception of the transaction. In the management's opinion, there is no reason to agree with the position of the plaintiff, and there is no information that would indicate a possible significant outflow of economic resources on the lawsuit.

Moscow Prosecutor's office filed a claim in the Moscow Arbitration Court against the Bank and a customer of the Bank (together - parties) to void the derivative deals concluded between the parties. The Bank's management examined the circumstances of the case, the existing documentation and the Bank estimates the outflow of resources on this lawsuit as possible. In relation to this claim during 2016 the Group booked a provision in the amount of expected losses.

Tax legislation. Russian tax, currency and customs current legislation is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities.

Federal law No. 376-FZ dated 24 November 2014 took effect from 1 January 2015 and new rules for taxation of controlled foreign companies as well as conception of beneficial owner and tax resident of legal entities took place. The adoption of this law generally leads to an increase in the administrative and in several cases tax burden for the Russian entities that have subsidiary structures incorporated outside the Russian Federation and/or carry out transactions with foreign companies.

In accordance with the requirements of the Tax Code of the Russian Federation the Bank calculates and records through the current income tax the tax liabilities in respect of profits of foreign companies, as well as foreign organizations without a legal entity, which are recognized as controlled foreign companies of the Group. The calculation of tax liabilities in respect of profits of controlled foreign companies takes into account proposed dividend distributions and expected reorganizations within the Group.

Adoption of new norms as well as other Russian tax legislation interpretations along with recent trends in legal succession could lead to potential possibility of increase in tax paid and tax penalties driven by rigid position of tax authorities and courts concerning tax legislation interpretation and tax calculations. At the same time determination of size and possibility of adverse results of such tax claims could not be measured. The scope of tax inspections could be up to three years prior to the year of inspection. If certain conditions are present this scope could be extended to earlier years.

Notes to the Consolidated Financial Statements – 31 December 2016

35 Contingencies and Commitments (continued)

Management believes that as at 31 December 2016 the provisions of the tax laws applicable to the Group, are interpreted appropriately.

Capital expenditure commitments. As at 31 December 2016 the Group had contractual capital expenditure commitments in respect of premises and equipment totaling RR 19.0 billion (31 December 2015: RR 2.5 billion) and in respect of computer equipment acquisition of RR 41.9 billion (31 December 2015: RR 62.4 billion). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. When the Group is the lessee, the future minimum lease payments under non-cancellable operating lease are as follows:

<i>In billions of Russian Roubles</i>	31 December 2016	31 December 2015
Not later than 1 year	2.5	3.0
Later than 1 year and not later than 5 years	10.6	13.8
Later than 5 years	21.4	28.2
Total operating lease commitments	34.5	45.0

Credit related commitments and performance guarantees. The primary purpose of credit related commitments instruments is to ensure that funds are available to a customer when required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer can not meet the 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, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct lending.

Commitments to extend credit represent unused portions of authorizations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the maturities of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cashflows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

Notes to the Consolidated Financial Statements – 31 December 2016

35 Contingencies and Commitments (continued)

Outstanding credit related commitments and performance guarantees are as follows:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
Commitments to extend credit	1,856.0	1,762.8
Guarantees issued:		
- Financial guarantees	1,132.4	1,336.4
- Performance guarantees	520.6	584.8
Undrawn credit lines	768.7	1,136.6
Export letters of credit	307.9	345.2
Import letters of credit and letters of credit for domestic settlements	173.0	189.4
Total credit related commitments and performance guarantees before provision	4,758.6	5,355.2
Less provision	(16.1)	(5.0)
Total credit related commitments and performance guarantees after provision	4,742.5	5,350.2

As at 31 December 2016 included in due to corporate customers are deposits of RR 102.7 billion (31 December 2015: RR 116.2 billion) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 18.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash payments, as these instruments may expire or terminate without any payments being made.

For the movements in the provision for impairment of credit related commitments and performance guarantees refer to Note 22.

Assets under management. As at 31 December 2016 and 31 December 2015 several asset management companies of the Group were managing assets of various investment entities. The net value of such assets was as follows:

<i>In billions of Russian Roubles</i>	31 December 2016	31 December 2015
Mutual investment funds	41.0	38.2
Pension funds and insurance companies	34.7	35.3
Designated funds	28.0	32.1
Funds of individuals	31.5	7.5
Venture funds	—	1.8
Other	3.0	2.0
Total	138.2	116.9

36 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. Fair value of derivative financial assets and liabilities can fluctuate significantly from time to time. Refer to Note 37 for the information on valuation of derivative financial instruments.

The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date.

Notes to the Consolidated Financial Statements – 31 December 2016

36 Derivative Financial Instruments (continued)

The table below shows the analysis of derivative financial instruments of the Group as at 31 December 2016:

<i>In billions of Russian Roubles</i>	Fair value of principal amount or agreed amount		Assets - Positive fair value	Liabilities - Negative fair value
	Receivables	Payables		
Foreign currency:				
Market swaps	8.1	(8.1)	—	—
OTC options	111.2	(113.0)	15.8	(17.6)
OTC swaps	1,658.4	(1,691.9)	20.7	(54.2)
Forwards	343.5	(335.1)	14.7	(6.3)
Futures	—	(0.4)	—	(0.4)
Total	2,121.2	(2,148.5)	51.2	(78.5)
Interest rate:				
Market options	4.2	(4.2)	—	—
Market swaps	21.4	(21.4)	0.2	(0.2)
OTC options	4.3	(3.0)	3.1	(1.8)
OTC swaps	293.4	(288.6)	22.8	(18.0)
Futures	0.7	(0.5)	0.7	(0.5)
Total	324.0	(317.7)	26.8	(20.5)
Foreign currency interest rate:				
OTC swaps	529.6	(493.0)	107.3	(70.7)
Total	529.6	(493.0)	107.3	(70.7)
Commodities including precious metals:				
Market options	2.3	(1.6)	2.2	(1.5)
OTC options	11.9	(11.1)	6.7	(5.9)
OTC swaps	35.7	(36.0)	0.4	(0.7)
Forwards	2.7	(2.9)	0.4	(0.6)
Futures	1.1	(1.5)	1.1	(1.5)
Total	53.7	(53.1)	10.8	(10.2)
Equities:				
Market options	1.5	(0.4)	1.5	(0.4)
OTC options	3.1	—	3.1	—
Forwards	0.4	(0.1)	0.4	(0.1)
Futures	0.5	(0.9)	0.5	(0.9)
Total	5.5	(1.4)	5.5	(1.4)
Debt securities:				
Market options	3.9	—	3.9	—
OTC options	0.1	(0.1)	0.1	(0.1)
Futures	—	(0.1)	—	(0.1)
Total	4.0	(0.2)	4.0	(0.2)
Credit risk:				
OTC swaps	2.1	(1.3)	1.0	(0.2)
Total	2.1	(1.3)	1.0	(0.2)
Total	3,040.1	(3,015.2)	206.6	(181.7)

Notes to the Consolidated Financial Statements – 31 December 2016

36 Derivative Financial Instruments (continued)

The table below shows the analysis of derivative financial instruments of the Group as at 31 December 2015:

<i>In billions of Russian Roubles</i>	Fair value of principal amount or agreed amount		Assets - Positive fair value	Liabilities - Negative fair value
	Receivables	Payables		
Foreign currency:				
Market swaps	294.7	(292.0)	3.3	(0.6)
OTC options	326.8	(307.3)	71.6	(52.1)
OTC swaps	1,496.8	(1,528.4)	21.5	(53.1)
Forwards	381.0	(372.0)	23.7	(14.7)
Futures	1.2	(1.1)	1.2	(1.1)
Total	2,500.5	(2,500.8)	121.3	(121.6)
Interest rate:				
Market options	5.3	(5.3)	—	—
Market swaps	10.2	(10.1)	0.2	(0.1)
OTC options	3.4	(2.0)	3.3	(1.9)
OTC swaps	420.9	(398.2)	43.5	(20.8)
Futures	1.0	(0.7)	1.0	(0.7)
Total	440.8	(416.3)	48.0	(23.5)
Foreign currency interest rate:				
OTC swaps	1,035.2	(932.7)	312.9	(210.4)
Total	1,035.2	(932.7)	312.9	(210.4)
Commodities including precious metals:				
Market options	2.4	(1.6)	1.3	(0.5)
OTC options	38.4	(37.3)	37.4	(36.3)
OTC swaps	82.9	(80.1)	2.8	—
Forwards	0.3	(2.0)	0.7	(2.4)
Futures	0.8	(1.2)	0.8	(1.2)
Total	124.8	(122.2)	43.0	(40.4)
Equities:				
Market options	1.2	(0.7)	1.2	(0.7)
OTC options	0.1	(0.1)	0.1	(0.1)
Forwards	0.1	(0.1)	0.1	(0.1)
Futures	0.2	(0.1)	0.2	(0.1)
Total	1.6	(1.0)	1.6	(1.0)
Debt securities:				
Market options	1.6	—	1.6	—
OTC options	0.1	—	0.1	—
Futures	—	(0.2)	—	(0.2)
Total	1.7	(0.2)	1.7	(0.2)
Credit risk:				
OTC swaps	9.1	(2.9)	6.3	(0.1)
Total	9.1	(2.9)	6.3	(0.1)
Total	4,113.7	(3,976.1)	534.8	(397.2)

37 Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following table shows an analysis of classes of assets carried at fair value by level of the fair value hierarchy as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Assets carried at fair value or revalued amount				
Trading securities	61.7	1.4	—	63.1
Corporate bonds	26.3	1.4	—	27.7
Russian federal loan bonds (OFZ bonds)	17.0	—	—	17.0
Russian Federation Eurobonds	9.2	—	—	9.2
Corporate shares	5.4	—	—	5.4
Foreign government and municipal bonds	3.2	—	—	3.2
Investments in mutual funds	0.3	—	—	0.3
Russian municipal and subfederal bonds	0.3	—	—	0.3
Securities designated as at fair value through profit or loss	131.5	181.5	22.8	335.8
Corporate bonds	63.0	174.5	—	237.5
Russian federal loan bonds (OFZ bonds)	55.8	—	—	55.8
Corporate shares	2.7	0.4	17.3	20.4
Investments in mutual funds	—	6.4	5.5	11.9
Russian municipal and subfederal bonds	7.1	0.2	—	7.3
Foreign government and municipal bonds	2.4	—	—	2.4
Russian Federation Eurobonds	0.5	—	—	0.5
Securities pledged under repurchase agreements	81.3	—	—	81.3
Foreign government and municipal bonds	66.4	—	—	66.4
Russian federal loan bonds (OFZ bonds)	14.4	—	—	14.4
Russian Federation Eurobonds	0.2	—	—	0.2
Corporate bonds	0.3	—	—	0.3
Investment securities available-for-sale	1,609.0	49.7	0.2	1,658.9
Russian federal loan bonds (OFZ bonds)	763.8	—	—	763.8
Corporate bonds	393.5	12.6	—	406.1
Russian Federation Eurobonds	234.1	—	—	234.1
Foreign government and municipal bonds	150.7	36.6	—	187.3
Corporate shares	44.9	0.1	0.2	45.2
Russian municipal and subfederal bonds	22.0	—	—	22.0
Promissory notes	—	0.4	—	0.4
Derivative financial instruments	—	206.6	—	206.6
Foreign currency interest rate derivatives	—	107.3	—	107.3
Foreign currency derivatives	—	51.2	—	51.2
Interest rate derivatives	—	26.8	—	26.8
Commodity derivatives including precious metals derivatives	—	10.8	—	10.8
Equity securities derivatives	—	5.5	—	5.5
Debt securities derivatives	—	4.0	—	4.0
Credit risk derivatives	—	1.0	—	1.0
Investment property	—	—	8.4	8.4
Office premises	—	—	293.6	293.6
Total assets carried at fair value	1,883.5	439.2	325.0	2,647.7

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following table shows an analysis of classes of assets carried at fair value by level of the fair value hierarchy as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Assets carried at fair value or revalued amount				
Trading securities	79.8	6.4	0.1	86.3
Corporate bonds	41.0	6.3	—	47.3
Russian federal loan bonds (OFZ bonds)	15.6	—	—	15.6
Russian Federation Eurobonds	10.7	—	—	10.7
Corporate shares	9.6	0.1	0.1	9.8
Foreign government and municipal bonds	2.8	—	—	2.8
Russian municipal and subfederal bonds	0.1	—	—	0.1
Securities designated as at fair value through profit or loss	109.2	116.3	20.2	245.7
Corporate bonds	71.4	114.6	—	186.0
Russian federal loan bonds (OFZ bonds)	24.7	—	—	24.7
Corporate shares	1.3	—	19.5	20.8
Russian municipal and subfederal bonds	7.9	—	—	7.9
Investments in mutual funds	3.3	1.2	0.7	5.2
Russian Federation Eurobonds	0.6	—	—	0.6
Foreign government and municipal bonds	—	0.5	—	0.5
Securities pledged under repurchase agreements	149.6	—	—	149.6
Foreign government and municipal bonds	124.9	—	—	124.9
Russian federal loan bonds (OFZ bonds)	24.4	—	—	24.4
Corporate shares	0.3	—	—	0.3
Investment securities available-for-sale	1,603.7	267.8	2.8	1,874.3
Corporate bonds	478.8	203.7	—	682.5
Russian federal loan bonds (OFZ bonds)	639.6	—	—	639.6
Russian Federation Eurobonds	281.2	—	—	281.2
Foreign government and municipal bonds	137.1	63.1	—	200.2
Russian municipal and subfederal bonds	45.1	—	—	45.1
Corporate shares	21.9	0.6	2.8	25.3
Promissory notes	—	0.4	—	0.4
Derivative financial instruments	—	523.4	11.4	534.8
Foreign currency interest rate derivatives	—	312.9	—	312.9
Foreign currency derivatives	—	109.9	11.4	121.3
Interest rate derivatives	—	48.0	—	48.0
Commodity derivatives including precious metals derivatives	—	43.0	—	43.0
Credit risk derivatives	—	6.3	—	6.3
Debt securities derivatives	—	1.7	—	1.7
Equity securities derivatives	—	1.6	—	1.6
Investment property	—	—	11.1	11.1
Office premises	—	—	316.9	316.9
Total assets carried at fair value	1,942.3	913.9	362.5	3,218.7

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following table shows fair values of assets for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	626.5	1,934.3	—	2,560.8
Mandatory cash balances with central banks	—	402.0	—	402.0
Due from banks	—	965.4	—	965.4
Loans and advances to customers	—	—	17,696.7	17,696.7
Investment securities held-to-maturity	506.7	44.3	—	551.0
Investment securities held-to-maturity pledged under repurchase agreement	32.3	—	—	32.3
Other financial assets	—	—	314.5	314.5
Total assets for which fair values are disclosed	1,165.5	3,346.0	18,011.2	22,522.7

The following table shows fair values of assets for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	778.1	1,555.5	—	2,333.6
Mandatory cash balances with central banks	—	387.9	—	387.9
Due from banks	—	750.6	—	750.6
Loans and advances to customers	—	730.7	17,835.7	18,566.4
Investment securities held-to-maturity	416.4	48.5	—	464.9
Investment securities held-to-maturity pledged under repurchase agreement	72.9	—	—	72.9
Other financial assets	—	—	671.0	671.0
Total assets for which fair values are disclosed	1,267.4	3,473.2	18,506.7	23,247.3

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following tables show fair values of liabilities carried at fair value and of liabilities for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value				
Derivative financial instruments	—	181.7	—	181.7
Foreign currency derivatives	—	78.5	—	78.5
Foreign currency interest rate derivatives	—	70.7	—	70.7
Interest rate derivatives	—	20.5	—	20.5
Commodity derivatives including				
precious metals derivatives	—	10.2	—	10.2
Equity securities derivatives	—	1.4	—	1.4
Debt securities derivatives	—	0.2	—	0.2
Credit risk derivatives	—	0.2	—	0.2
Obligation to deliver securities	31.2	—	—	31.2
Corporate bonds	16.3	—	—	16.3
Russian federal loan bonds (OFZ bonds)	9.6	—	—	9.6
Corporate shares	4.1	—	—	4.1
Russian Federation Eurobonds	0.9	—	—	0.9
Foreign government and municipal bonds	0.3	—	—	0.3
Total liabilities carried at fair value	31.2	181.7	—	212.9
Liabilities for which fair values are disclosed				
Due to banks	—	561.5	—	561.5
Due to individuals	—	2,478.9	10,025.0	12,503.9
Due to corporate customers	—	1,982.3	4,219.1	6,201.4
Debt securities in issue	492.8	619.5	67.8	1,180.1
Other borrowed funds	—	83.7	177.1	260.8
Other financial liabilities	—	—	312.6	312.6
Subordinated debt	208.1	6.0	527.2	741.3
Total liabilities for which fair values are disclosed	700.9	5,731.9	15,328.8	21,761.6

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following tables show fair values of liabilities carried at fair value and of liabilities for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2015:

<i>in billions of Russian Roubles</i>	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value				
Derivative financial instruments	—	397.2	—	397.2
Foreign currency interest rate derivatives	—	210.4	—	210.4
Foreign currency derivatives	—	121.6	—	121.6
Commodity derivatives including				
precious metals derivatives	—	40.4	—	40.4
Interest rate derivatives	—	23.5	—	23.5
Equity securities derivatives	—	1.0	—	1.0
Debt securities derivatives	—	0.2	—	0.2
Credit risk derivatives	—	0.1	—	0.1
Obligation to deliver securities	29.3	0.1	—	29.4
Corporate bonds	11.6	0.1	—	11.7
Russian federal loan bonds (OFZ bonds)	7.7	—	—	7.7
Corporate shares	5.5	—	—	5.5
Russian Federation Eurobonds	3.6	—	—	3.6
Foreign government and municipal bonds	0.9	—	—	0.9
Total liabilities carried at fair value	29.3	397.3	—	426.6
Liabilities for which fair values are disclosed				
Due to banks	—	1,045.4	—	1,045.4
Due to individuals	—	2,415.4	9,638.6	12,054.0
Due to corporate customers	—	2,361.2	5,290.3	7,651.5
Debt securities in issue	606.7	768.9	1.3	1,376.9
Other borrowed funds	—	396.0	—	396.0
Other financial liabilities	—	—	397.6	397.6
Subordinated debt	231.0	41.1	504.6	776.7
Total liabilities for which fair values are disclosed	837.7	7,028.0	15,832.4	23,698.1

Level 2 includes debt securities of first-class borrowers and derivative financial instruments that are not actively traded on the market. Fair value of these financial instruments was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable on the active market. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

The following describes the methodologies and assumptions used to determine fair values for financial instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs derived from well-known market information systems are mainly foreign currency interest rate swaps, interest rate swaps, currency swaps, forward foreign exchange contracts and foreign exchange option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Option-pricing is mostly done with Black-Scholes model and for certain types of options with stochastic local volatility model. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and implied volatility. In rare exceptional cases, DCF model may be applied, in case where it is impossible to obtain market data.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

Trading securities, securities designated as at fair value through profit or loss and investment securities available-for-sale

Trading securities, securities designated as at fair value through profit or loss and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured as at fair value during the year ended 31 December 2016:

<i>in billions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Trading securities	0.8	1.3
Securities designated as at fair value through profit or loss	3.2	4.8
Investment securities available-for-sale	12.0	10.1
Total transfers of financial assets	16.0	16.2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities measured as at fair value during the year ended 31 December 2015:

<i>in billions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Trading securities	6.4	10.3
Securities designated as at fair value through profit or loss	0.8	1.1
Investment securities available-for-sale	204.7	29.9
Total transfers of financial assets	211.9	41.3
Financial liabilities		
Obligation to deliver securities	—	10.2
Total transfers of financial liabilities	—	10.2

The financial instruments are transferred from Level 2 and Level 3 to Level 1 when they become actively traded and fair values are determined using quoted prices in an active market.

The financial instruments are transferred from Level 1 to Level 2 when they ceased to be actively traded, the liquidity of the market is not sufficient to use the market quotation for the valuation and fair values are consequently obtained from valuation techniques using observable market inputs.

The financial instruments are transferred to Level 3 when they ceased to be actively traded and there is no possibility to use valuation techniques with observable market inputs.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 assets (except for office premises disclosed in Note 14) which are recorded as at fair value as at 31 December 2016:

<i>in billions of Russian Roubles</i>	At 31 December 2015	Total (losses)/ gains reported in profit or loss	Foreign currency revaluation	Purchases	Business combinations	Sales/ Settlements	Transfers from Level 3	Transfers to Level 3	At 31 December 2016
Trading securities	0.1	(0.1)	—	—	—	—	—	—	—
Securities designated as at fair value through profit or loss	20.2	0.6	0.1	2.0	—	(0.1)	—	—	22.8
Investment securities available-for-sale	2.8	(3.0)	(0.3)	—	—	—	—	0.7	0.2
Derivative financial instruments	11.4	1.9	(1.5)	—	—	(11.8)	—	—	—
Investment property	11.1	0.1	(1.6)	1.7	2.2	(2.0)	(3.4)	0.3	8.4
Total level 3 assets	45.6	(0.5)	(3.3)	3.7	2.2	(13.9)	(3.4)	1.0	31.4

For the year ended 31 December 2016 there were no unrealized gains / losses reported in the consolidated statement of profit or loss on Level 3 financial assets.

Total losses recognized as profit or loss on trading securities which are presented in the table above are reported in the consolidated statement of profit or loss within net gains from trading securities.

Total gains recognized as profit or loss on securities designated as at fair value through profit or loss which are presented in the table above are reported in the consolidated statement of profit or loss within net gains from securities designated as at fair value through profit or loss.

Total losses recognized as profit or loss on investment securities available-for-sale which are presented in the table above are reported in the consolidated statement of profit or loss within net gains from investment securities available-for-sale.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in the consolidated statement of profit or loss within net (losses) / gains from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; within net gains / (losses) from operations with precious metals, precious metals derivatives and precious metals accounts translation and within net gains from operations with other derivatives.

Valuation of share in a real estate company of RR 8.3 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: WACC and estimated capitalization rate (CapRate) which depend on forecasts on property prices. WACC as at 31 December 2016 is 12.5%, CapRate – 8.75%.

Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 1.3 billion lower / RR 1.1 billion higher. Should the capitalization rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 1.2 billion lower / RR 1.5 billion higher.

Valuation of non-voting share in a special investment fund (SIF) with investments in oil companies of RR 4.9 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: WACC and estimated guaranteed fixed yield on exit. Guaranteed fixed yield is not linked to the market and so has immaterial influence on the value of the financial instrument. WACC as at 31 December 2016 is 13.5%.

Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.05 billion lower / RR 0.05 billion higher.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

Valuation of investment in a mining company of RR 4.4 billion using valuation techniques based on non-observable inputs

Fair value of investments was determined based on net assets value, while valuation of the investments in the company's operational subsidiaries was based on discounted cash flow model using the following key assumptions: WACC, operational expenses, cost of investments, price and volume of sale.

WACC of operational companies as at 31 December 2016 is 17.5%, 17.6%, 19.7% and 19.9%. Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.3 billion lower / RR 0.4 billion higher.

Valuation of share in a real estate company of RR 2.0 billion using valuation techniques based on non-observable inputs

Fair value of 16 properties with a total area of 102 000 square meters was based on market value of real estate units using average market rate for one square meter of real estate properties (39 thousand Russian Roubles). Should the average rate for square meter of real estate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.02 billion higher / RR 0.02 billion lower.

The following table shows a reconciliation of the opening and closing amount of Level 3 assets (except for office premises disclosed in Note 14) which are recorded as at fair value as at 31 December 2015:

<i>in billions of Russian Roubles</i>	At 31 December 2014	Total gains reported in profit or loss	Foreign currency revaluation	Total gains reported in other compre- hensive income	Purchases	Business combinations	Sales/ Settlements	Transfers to Level 3	At 31 December 2015
Trading securities	0.6	—	—	—	—	—	(0.6)	0.1	0.1
Securities designated as at fair value through profit or loss	14.5	2.9	—	—	2.8	—	—	—	20.2
Investment securities available-for-sale	—	—	0.4	2.4	—	—	—	—	2.8
Derivative financial instruments	19.2	6.9	0.2	—	2.2	—	(17.1)	—	11.4
Investment property	7.1	0.4	0.3	—	1.2	2.0	(0.6)	0.7	11.1
Total level 3 assets	41.4	10.2	0.9	2.4	6.2	2.0	(18.3)	0.8	45.6

For the year ended 31 December 2015 the gains in the amount of RR 4.4 billion reported in the consolidated statement of profit or loss on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on securities designated as at fair value through profit or loss which are presented in the table above are reported in the consolidated statement of profit or loss within net gains / (losses) arising from securities designated as at fair value through profit or loss.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in the consolidated statement of profit or loss within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; within net losses arising from operations with precious metals, precious metals derivatives and precious metals accounts translation and within net gains arising from operations with other derivatives.

Valuation of share in a real estate company of RR 7.3 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: WACC and estimated capitalization rate (CapRate) which depend on forecasts on property prices. WACC as at 31 December 2015 is 15.0%, CapRate – 12%.

Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.2 billion lower / RR 0.2 billion higher. Should the capitalization rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 1.3 billion lower / RR 1.6 billion higher.

37 Fair Value Disclosures (continued)**Valuation of non-voting share in a special investment fund (SIF) with investments in oil companies of RR 5.3 billion using valuation techniques based on non-observable inputs**

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: WACC and estimated guaranteed fixed yield on exit. Guaranteed fixed yield is not linked to the market and so has immaterial influence on the value of the financial instrument. WACC as at 31 December 2015 is 13.5%.

Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.05 billion lower / RR 0.05 billion higher.

Valuation of investment in a mining company of RR 4.7 billion using valuation techniques based on non-observable inputs

Fair value of investments was determined based on net assets value, while valuation of the investments in the company's operational subsidiaries was based on discounted cash flow model using the following key assumptions: WACC, operational expenses, cost of investments, price and volume of sale.

WACC of operational companies as at 31 December 2015 is 18.5%, 19.3% and 19.5%. Should the discount rate used by the Group in the valuation model increase / decrease by 1.0%, the carrying value of the financial instrument would be RR 0.3 billion lower / RR 0.4 billion higher.

Valuation of shares of an international payment system of RR 2.7 billion using valuation techniques based on non-observable inputs

Fair value of investment was determined based on the valuation of up-front consideration due to the expected sale of shares.

Valuation of foreign currency derivatives contracts of RR 11.4 billion using non-observable inputs

The input used for estimation of fair values of foreign currency derivatives as at 31 December 2015 was the yield to maturity of the Belarusian Eurobonds in USD with maturity date in January, 2018, amounting to 7.13%.

The obligations in Belarusian Roubles were estimated against the prevailing rate of attracting funds in Belarusian Roubles which is 27.5%. Should the input rate for Belarusian Roubles decrease by 1,000 basis points the carrying value of the foreign currency derivatives would be RR 0.1 billion lower.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

Fair values of financial assets and liabilities not accounted at fair value in the consolidated financial statements are disclosed below. There are following financial assets and financial liabilities not disclosed in the table below because their carrying amount is a reasonable approximation of fair value due to their short-term nature or repricing to current market rates:

- cash and cash equivalents;
- mandatory cash balances with central banks;
- other financial assets;
- other financial liabilities.

Fair values of financial assets not accounted for at fair value in the consolidated financial statements are as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at amortized cost				
Due from banks	965.4	965.4	750.6	750.6
Loans and advances to customers:				
- Commercial loans to legal entities	9,167.1	9,273.0	9,671.8	9,683.1
- Specialized loans to legal entities	3,406.6	3,529.6	4,353.8	4,202.6
- Mortgage loans to individuals	2,704.3	2,776.3	2,497.3	2,482.8
- Consumer and other loans to individuals	1,443.8	1,478.9	1,546.5	1,541.9
- Credit cards and overdrafts to individuals	530.4	530.4	528.6	528.6
- Car loans to individuals	109.1	108.5	129.8	127.4
Securities pledged under repurchase agreements:				
- Investment securities held-to-maturity pledged under repurchase agreements	32.6	32.3	72.4	72.9
Investment securities held-to-maturity	545.8	551.0	477.7	464.9
Total	18,905.1	19,245.4	20,028.5	19,854.8

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

Fair values of financial liabilities not accounted at fair value in the consolidated financial statements are as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities carried at amortized cost				
Due to banks	561.9	561.5	1,045.9	1,045.4
Due to Individuals:				
- Current/demand accounts	2,478.9	2,478.9	2,415.4	2,415.4
- Term deposits	9,970.1	10,024.4	9,627.9	9,638.2
- Direct repo agreements	0.6	0.6	0.4	0.4
Due to corporate customers:				
- Current/settlement accounts of state and public organizations	147.8	147.8	134.3	134.3
- Term deposits of state and public organizations	184.2	183.5	325.3	319.2
- Current/settlement accounts of other corporate customers	1,834.5	1,834.5	2,226.9	2,226.9
- Term deposits of other corporate customers	3,997.4	3,964.3	4,957.4	4,860.4
- Direct repo agreements with other corporate customers	71.3	71.3	110.7	110.7
Debt securities in issue:				
- Savings certificates	482.6	484.1	577.7	577.8
- Loan participation notes issued under the MTN programme of Sberbank	473.9	492.8	607.0	606.6
- Bonds issued:				
- on the local market	84.3	84.4	70.1	68.8
- on international capital markets	21.1	20.3	34.5	34.6
- Promissory notes	92.4	91.8	80.7	80.5
- Bonds issued under mortgage securitization programme of Sberbank	5.5	5.5	7.2	7.3
- Other debt securities issued	1.2	1.2	1.3	1.3
Other borrowed funds	261.4	260.8	398.0	396.0
Subordinated debt:				
- Subordinated debt received by the Group from the Bank of Russia	504.4	504.4	504.5	504.5
- Subordinated debt issued under the MTN programme of Sberbank	204.7	208.1	259.0	231.4
- Other subordinated debt	30.8	28.8	43.0	40.8
Total	21,409.0	21,449.0	23,427.2	23,300.5

Financial instruments carried at fair value. Trading securities, securities designated at fair value through profit or loss, financial derivatives, available-for-sale financial assets, obligation to deliver securities are carried in the consolidated statement of financial position at fair value.

Cash and cash equivalents are carried at amortized cost which approximately equals their current fair value.

Refer to Note 3 for accounting policy on financial instruments carried at fair value.

Notes to the Consolidated Financial Statements – 31 December 2016

37 Fair Value Disclosures (continued)

Loans and receivables carried at amortized cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar profile. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group’s credit risk and also depend on currency and maturity of the instrument and ranged from 0.01% p.a. to 20.0% p.a. (31 December 2015: from 0.1% p.a. to 27.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 36.

38 Transfers of Financial Assets and Pledged Assets

The following note provides a summary of financial assets which have been pledged or transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

The table below shows the amount of operations under sale and repurchase agreements which the Group enters into in the normal course of business.

	31 December 2016				31 December 2015			
	Due to banks		Due to customers		Due to banks		Due to customers	
	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability
<i>in billions of Russian Roubles</i>								
Securities pledged under repurchase agreements	37.9	37.2	76.0	71.9	114.4	112.4	107.6	110.6
Securities issued by the Bank pledged under repurchase agreements	—	—	—	—	0.1	0.1	0.9	0.5
Securities of clients pledged under repurchase agreements	3.1	2.9	—	—	6.6	5.9	—	—
Total before margin calls	41.0	40.1	76.0	71.9	121.1	118.4	108.5	111.1
Other financial assets (margin calls under repurchase agreements)	—	—	0.2	—	12.8	—	0.1	—
Total	41.0	40.1	76.2	71.9	133.9	118.4	108.6	111.1

Refer to Note 11 for information on details of own securities portfolio pledged under repurchase agreements.

Notes to the Consolidated Financial Statements – 31 December 2016

38 Transfers of Financial Assets and Pledged Assets (continued)

In the normal course of business, the Group makes borrowings on interbank market using different financial instruments as collateral to support its everyday operations in terms of liquidity.

The summary of the financial assets transferred without derecognition and pledged assets is presented below:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability
Cash and cash equivalents	—	—	0.2	—
Loans to corporate customers	96.6	81.8	372.0	290.8
Loans to individuals	6.7	5.5	8.5	7.2
Securities	48.5	33.6	41.1	31.3
Other assets	3.2	2.3	8.3	3.9
Total	155.0	123.2	430.1	333.2

Margin calls transferred are disclosed in Note 16.

The Group also enters into reverse sale and repurchase agreements. The summary of such operations is provided in the table below:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Amount of loans granted under repo agreements	Fair value of securities received as collateral	Amount of loans granted under repo agreements	Fair value of securities received as collateral
Cash and cash equivalents	340.9	373.3	89.2	100.6
Due from banks	456.0	510.1	217.4	256.0
Loans and advances to customers	108.1	148.0	121.6	171.6
Total	905.0	1,031.4	428.2	528.2

39 Offsetting of Financial Instruments

Financial instruments subject to offsetting, enforceable master netting (ISDA, RISDA, etc.) and similar arrangements are as follows as at 31 December 2016:

<i>in billions of Russian Roubles</i>	Gross amount of recognized financial assets/liabilities	Gross amount of recognized financial assets/liabilities set off in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Financial assets						
Derivative financial assets	166.0	—	166.0	(80.1)	(22.0)	63.9
Reverse repurchase agreements	905.0	—	905.0	(905.0)	—	—
Total financial assets	1,071.0	—	1,071.0	(985.1)	(22.0)	63.9
Financial liabilities						
Derivative financial liabilities	176.6	—	176.6	(80.1)	(65.7)	30.8
Direct repurchase agreements	112.0	—	112.0	(111.9)	—	0.1
Total financial liabilities	288.6	—	288.6	(192.0)	(65.7)	30.9

Notes to the Consolidated Financial Statements – 31 December 2016

39 Offsetting of Financial Instruments (continued)

The comparative information as at 31 December 2015 is presented in the table below:

<i>in billions of Russian Roubles</i>	Gross amount of recognized financial assets/liabilities	Gross amount of recognized financial assets/liabilities set off in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Financial assets						
Derivative financial assets	440.6	—	440.6	(197.1)	(50.1)	193.4
Reverse repurchase agreements	428.2	—	428.2	(428.2)	—	—
Total financial assets	868.8	—	868.8	(625.3)	(50.1)	193.4
Financial liabilities						
Derivative financial liabilities	387.3	—	387.3	(197.1)	(98.9)	91.3
Direct repurchase agreements	229.5	—	229.5	(222.8)	—	6.7
Total financial liabilities	616.8	—	616.8	(419.9)	(98.9)	98.0

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. The Group also made margin deposits with clearing house counterparty as collateral for its outstanding derivative positions. The counterparty may set off the Group's liabilities with the margin deposit in case of default. Margin calls transferred are presented within other financial assets (refer to Note 16).

The Group also received margin deposits as collateral which may be set off with the Group's counterparties' liabilities on outstanding derivative contracts in case of default of the Group's counterparties. Margin calls received are presented within other financial liabilities (refer to Note 22).

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are set off in the consolidated statement of financial position.

40 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal shareholder is the Bank of Russia (refer to Note 1). Other related parties in the tables below comprise key management personnel, their close family members, associated companies of the Group. Disclosures are made in Note 41 for significant transactions with state-controlled entities and government bodies.

Notes to the Consolidated Financial Statements – 31 December 2016

40 Related Party Transactions (continued)

As at 31 December 2016 and 31 December 2015, the outstanding balances with the Bank of Russia and other related parties were as follows:

<i>in billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Bank of Russia	Other related parties	Bank of Russia	Other related parties
Assets				
Cash and cash equivalents	816.2	—	472.7	—
Mandatory cash balances with the Bank of Russia	154.9	—	118.5	—
Due from banks	3.8	—	1.8	—
Gross loans and advances to customers (contractual interest rates: 6.0% p.a. - 20.0% p.a.)	—	28.6	—	36.7
Other assets	—	—	—	0.9
Liabilities				
Due to banks (contractual interest rates: 6.5% p.a. - 11.3% p.a.)	79.9	—	269.8	—
Due to individuals	—	9.9	—	7.9
Due to corporate customers (contractual interest rates: 1.5% p.a. - 8.5% p.a.)	—	0.6	—	2.2
Subordinated debt (contractual interest rate: 6.5% p.a.)	504.4	—	504.5	—
Other liabilities	—	2.0	—	0.6

As at 31 December 2016 included in operations with other related parties are deposits attracted from key management personnel and their close family members in the amount of RR 9.9 billion (31 December 2015: RR 7.9 billion); as at 31 December 2016 included in operations with other related parties are loans and advances granted to key management personnel and their close family members in the amount of RR 0.1 billion (31 December 2015: RR 0.1 billion).

The income and expense items with the Bank of Russia and other related parties for the year ended 31 December 2016 and 31 December 2015 were as follows:

<i>in billions of Russian Roubles</i>	Year ended 31 December			
	2016		2015	
	Bank of Russia	Other related parties	Bank of Russia	Other related parties
Interest income	1.1	3.2	0.3	3.7
Interest expense on subordinated debt	(32.4)	—	(32.4)	—
Interest expense other than on subordinated debt	(15.4)	(0.6)	(187.4)	(0.8)
Revenue of non-core business activities	—	0.5	—	1.4
Commission income	0.1	—	0.3	—
Commission expense	(1.6)	—	(1.8)	(0.3)
Operating expenses	—	(5.0)	—	(0.2)

40 Related Party Transactions (continued)

For the year ended 31 December 2016, interest expense on deposits attracted from key management personnel and their close family members comprised RR 0.6 billion (for the year ended 31 December 2015: RR 0.6 billion).

For the year ended 31 December 2016, regular remuneration of the members of the key management personnel comprised salaries and bonuses totaling RR 3.1 billion (for the year ended 31 December 2015: RR 2.5 billion).

Also in 2015 the Bank has introduced a long term cash settled motivation program for the key management personnel with share-based features. The program has been designed within a framework of risk oriented remuneration and is in full compliance with the requirements of the Bank of Russia on the remuneration system for Russian credit institutions. The program parameters are as follows:

- 40% of the variable part of the annual compensation is deferred and is paid in 3 annual installments;
- payments to the participants of the program are contingent upon the Bank's positive performance, e.g. if the Bank has a loss in any of the 3 years following the year in which the award was granted, payments to the participants are forfeited for that particular year;
- awards may be fully or partially forfeited, for example, due to individual misconduct (including a breach of regulations) or termination for cause and also due to negative individual contributions to the Bank's results.

For the year ended 31 December 2016 share-based long term compensation has amounted to RR 1.6 billion (for the year ended 31 December 2015: RR 0.6 billion).

Share-based long term compensation is payable in cash, and is remeasured at each reporting date based on the forward price of the Bank's ordinary shares. Payables on share-based long term compensation as at 31 December 2016 amounted to RR 1.3 billion (31 December 2015: RR 0.6 billion). The related obligations are included in other financial liabilities in the consolidated statement of financial position until paid.

Notes to the Consolidated Financial Statements – 31 December 2016

41 Operations with State-Controlled Entities and Government Bodies

In the normal course of business, the Group enters into contractual agreements with the government of the Russian Federation and entities controlled by it. The Group provides the state-controlled entities and government bodies with a full range of banking services including, but not limited to, lending, deposit-taking, issue of guarantees, operations with securities, cash and settlement transactions. Operations with state-controlled entities and government bodies are carried out on general market terms and constitute the minority of the Group's operations.

Balances with state-controlled entities and government bodies which are significant in terms of the carrying amount as at 31 December 2016 are disclosed below:

		31 December 2016		
<i>In billions of Russian Roubles</i>		Loans and advances to customers / Due from banks	Due to corporate customers / Due to banks	Guarantees issued
Client	Sector			
Client 1	Oil and gas	276.2	108.2	6.9
Client 2	Oil and gas	160.4	16.4	211.9
Client 3	Machinery	234.9	113.2	15.9
Client 4	Energy	124.2	194.0	13.3
Client 5	Banking	249.0	33.0	—
Client 6	Oil and gas	—	195.1	—
Client 7	Machinery	40.5	72.7	64.5
Client 8	Machinery	47.0	67.1	56.9
Client 9	Machinery	51.9	97.6	16.2
Client 10	Machinery	19.6	58.4	82.2
Client 11	Energy	136.4	12.1	0.2
Client 12	Machinery	75.6	44.5	0.2
Client 13	Machinery	3.7	18.2	96.8
Client 14	Energy	62.2	20.4	0.1
Client 15	Machinery	32.6	27.9	1.3
Client 16	Government and municipal bodies	61.2	—	—
Client 17	Services	60.2	0.3	—
Client 18	Metallurgy	54.6	2.6	—
Client 19	Telecommunications	40.8	1.2	9.0
Client 20	Transport, aviation, space industry	33.4	11.5	—

Notes to the Consolidated Financial Statements – 31 December 2016

41 Operations with State-Controlled Entities and Government Bodies (continued)

Additionally as at 31 December 2016 balances from operations with state-controlled entities and government bodies include receivables from Deposit Insurance Agency of RR 32.3 billion (31 December 2015: RR 73.2 billion) which represent receivables recognized from settlements on deposit compensations to clients of the banks whose license was withdrawn by the Bank of Russia. These balances are included in other financial assets in the consolidated statement of financial position. Refer to Note 16.

Balances with state-controlled entities and government bodies as at 31 December 2015 disclosed below contain balances which are significant in terms of the carrying amount as at 31 December 2016 (Clients 1-20), and additional entities with the balances which were significant as at 31 December 2015 (Clients 21-22):

<i>In billions of Russian Roubles</i>		31 December 2015		
		Loans and advances to customers / Due from banks	Due to corporate customers / Due to banks	Guarantees issued
Client	Sector			
Client 1	Oil and gas	242.6	139.1	11.1
Client 2	Oil and gas	57.2	331.8	—
Client 3	Machinery	191.4	107.5	18.8
Client 4	Energy	188.4	303.6	26.8
Client 5	Banking	58.0	20.0	—
Client 6	Oil and gas	—	189.5	—
Client 7	Machinery	195.8	95.4	55.0
Client 8	Machinery	37.5	25.9	41.9
Client 9	Machinery	84.6	84.3	22.4
Client 10	Machinery	40.6	44.6	94.7
Client 11	Energy	163.5	40.2	—
Client 12	Machinery	120.5	35.8	2.2
Client 13	Machinery	1.5	24.6	87.9
Client 14	Energy	67.3	31.0	—
Client 15	Machinery	45.5	15.5	2.2
Client 16	Government and municipal bodies	46.1	—	—
Client 17	Services	72.5	3.5	—
Client 18	Metallurgy	63.3	0.2	—
Client 19	Telecommunications	78.9	0.8	8.9
Client 20	Transport, aviation, space industry	27.5	8.3	—
Client 21	Banking	41.8	55.7	—
Client 22	Government and municipal bodies	53.4	—	—

As at 31 December 2016 and 31 December 2015 the Group's investments in securities issued by government-controlled corporate entities were as follows:

<i>In billions of Russian Roubles</i>	31 December 2016		31 December 2015	
	Corporate bonds	Corporate shares	Corporate bonds	Corporate shares
Trading securities	12.7	4.4	20.6	6.3
Securities designated as at fair value through profit or loss	193.3	1.0	137.2	0.5
Investment securities available-for-sale	245.5	28.5	319.8	21.8
Investment securities held-to-maturity	91.2	—	88.6	—

For disclosures on investments in government debt securities please refer to Notes 8, 11, 12 and 13.

Notes to the Consolidated Financial Statements – 31 December 2016

42 Principal Subsidiaries

The table below provides details on principal subsidiaries of the Bank as at 31 December 2016:

Name	Nature of business	Percentage of ownership	Country of registration
DenizBank (DenizBank AS)	banking	99.85%	Turkey
Sberbank Europe AG	banking	100.00%	Austria
OJSC BPS-Sberbank	banking	98.43%	Belarus
SB JSC Sberbank	banking	100.00%	Kazakhstan
SBERBANK PJSC	banking	100.00%	Ukraine
Sberbank (Switzerland) AG	banking	99.28%	Switzerland
Cetelem Bank LLC	banking	79.20%	Russia
JSC Sberbank Leasing	leasing	100.00%	Russia
LLC Sberbank Capital	finance	100.00%	Russia
LLC Bylinnye Bogatyry	finance	100.00%	Russia
LLC Insurance company "Sberbank insurance life"	finance	100.00%	Russia
LLC Insurance company "Sberbank insurance"	finance	100.00%	Russia
LLC Sberbank Factoring	finance	100.00%	Russia
JSC Rublevo-Archangelskoe	construction	100.00%	Russia
LLC Sberbank Investments	finance	100.00%	Russia
LLC Aukcion	services	100.00%	Russia
PS Yandex.Money LLC	telecommunications	75.00% minus one Russian Rouble	Russia
JSC Non-state Pension Fund of Sberbank	finance	100.00%	Russia

Certain of the Bank's subsidiaries have to fulfill regulatory requirements, in order to transfer funds, including paying dividends to, repaying loans to, or redeeming subordinated debentures issued to the Bank.

These customary regulatory requirements include, but are not limited to:

- local regulatory capital and/or surplus adequacy requirements;
- Basel requirements under Pillar I and Pillar II;
- local regulatory approval requirements; and
- local corporate and/or securities laws.

As at 31 December 2016, the net assets of subsidiaries subject to regulatory or capital adequacy requirements were RR 562.4 billion (31 December 2015: RR 617.7 billion), before intercompany eliminations.

The share of the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2016 was 19.9% (31 December 2015: 22.1%).

43 Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern.

According to requirements set by the Bank of Russia statutory capital ratio has to be maintained by the Bank above the minimum level of 8.0% (31 December 2015: 10.0%). As at 31 December 2016 this regulatory capital adequacy ratio N1.0 was 13.7% (31 December 2015: 11.9%). N1.0 as at 31 December 2016 was calculated prior to the accounting for adjusting subsequent events. Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation.

Notes to the Consolidated Financial Statements – 31 December 2016

43 Capital Adequacy Ratio (Continued)

The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8.0%. As at 31 December 2016 and 31 December 2015, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

<i>in billions of Russian Roubles</i>	31 December 2016	31 December 2015
<i>Tier 1 capital</i>		
Share capital	87.7	87.7
Share premium	232.6	232.6
Retained earnings	2,435.7	1,935.2
Treasury shares	(7.9)	(6.7)
less Goodwill	(18.9)	(22.1)
<i>Total Tier 1 capital (core capital)</i>	2,729.2	2,226.7
<i>Tier 2 capital</i>		
Revaluation reserve for office premises	66.9	69.3
Fair value reserve for investment securities available-for-sale	10.8	(20.6)
Foreign currency translation reserve	(19.8)	101.1
Eligible subordinated debt	717.7	781.2
less Investments in associates	(7.5)	(6.5)
<i>Total Tier 2 capital</i>	768.1	924.5
Total capital	3,497.3	3,151.2
<i>Risk weighted assets (RWA)</i>		
Credit risk	21,493.6	24,225.7
Market risk	774.6	769.8
Total risk weighted assets (RWA)	22,268.2	24,995.5
Core capital adequacy ratio (Total Tier 1 capital / Total RWA), %	12.3	8.9
Total capital adequacy ratio (Total capital / Total RWA), %	15.7	12.6

The Group was in compliance with external capital requirements during 2016 and 2015.

44 Subsequent Events

In February 2017 the Group repaid in full upon maturity the Series 8 of the loan participation notes issued under the MTN programme of Sberbank in the amount of USD 1.3 billion. The notes were issued in February 2012 and had contractual interest rate of 5.0% p.a.

In February 2017 the Group repaid in full upon maturity the Series 14 of the loan participation notes issued under the MTN programme of Sberbank in the amount of CHF 0.25 billion. The notes were issued in February 2013 and had contractual interest rate of 2.1% p.a.