BANK VOZROZHDENIE

International Financial Reporting Standards
Consolidated Financial Statements
and Independent Auditor’s Report

31 December 2016

CONTENTS

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Independent Auditor's Report

To the Shareholders and Board of Directors of Vozrozhdenie Bank:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vozrozhdenie Bank (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 and other 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 our 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 our 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

- Overall group materiality: Russian Roubles ("RUB") 290 million.

- We planned and scoped our audit for the year 2016 reflecting the Group's reporting structure. As a result, we defined Vozrozhdenie Bank as a significant component of the Group (total assets of the Bank, excluding intercompany balances, represented approximately 99% of total assets of the Group as at 31 December 2016). We applied professional judgement about our involvement in the audit of the financials of subsidiaries of the Bank.
- We also conducted audit work at the Group level in relation to the preparation of the consolidated financial statements.

Key audit matter requiring our attention was:

- Provision for impairment of loans to customers.

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.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank and the Group, the accounting processes and controls, and the industry in which the Group operates.

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 materiality for the Group's consolidated financial statements as a whole as set out in the table below. 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, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RR 290 million
How we determined it	1% of total revenue (interest income and commission income) for the year ended 31 December 2016
Rationale for the materiality benchmark applied	We chose total revenue as it is a generally acceptable benchmark and to mitigate the volatile nature of profit before tax during last years. We chose 1%, which, in our experience, is within the range of acceptable quantitative materiality thresholds commonly used for this benchmark.

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
Provision for impairment of loans to customers	
We focused on this matter due to the significance of loans to customers and the significance of judgements and estimates required for calculation of the related impairment provision. The provision represents management's best estimate of losses incurred within the loans to customers as at the balance sheet date. Specific provisions are calculated on an individual basis for significant loans. 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. For all other loans, collective provisions are calculated on a portfolio basis for loans of a similar nature. Such provisions are calculated using statistical models estimating the impact credit conditions on loan portfolios. The design of and inputs to the models are subject to management judgement.	We assessed the key methodologies and related models for calculation of the provision for loans to customers for consistency with the requirements of IFRS. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over impairment data, the identification of overdue balances and the calculation of the provision. We tested (on a sample basis) loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) loans for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, re-performed discounted cash flows calculations, examined the expected future cash flows used by management, challenged the assumptions and compared management estimates to external evidence where available.

Key audit matter	How our audit addressed the Key audit matter
Note 3 "Summary of significant accounting policies", Note 4 "Critical accounting estimates, and judgements 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 to customers.	We tested (on a sample basis) the 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 industry practice and actual experience, testing of the models though re-performance, and various analytical procedures.

Other information

Management is responsible for the other information. The other information comprises Annual report, which is expected to be made 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"

The 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 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 Group 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's 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 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, liquidity, operational, market, interest rate risks 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, liquidity, operational, market, interest rate risks and for equity (capital) of the Group;

   d) the 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, liquidity, operational, market and interest rate risks 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 procedures of the Group as well as recommendations on their improvement;

e) as at 1 January 2017 the authority of the Board of Directors 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 Board of Directors 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 risk management systems of the Group with the Bank of Russia's requirements for such systems.

The certified auditor responsible for the audit resulting in this independent auditor's report is Natalia Mileshkina.

AO PricewaterhouseCoopers Audit

20 March 2017

Moscow, Russian Federation

N. A. Mileshkina, certified auditor (licence no. 01-000197), AO PricewaterhouseCoopers Audit

Client: PAO «Bank Vozrozhdenie»

State registration certificate № 1439, issued by the Central Bank of the Russian Federation

Certificate of inclusion in the Unified State Register of Legal Entities issued on 17 December 2002 under registration № 1027700540680

7/4 Luchnikov Per., Building 1, Moscow, 101990, Russia

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 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 № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

Vozrozhdenie Bank
Consolidated Statement of Financial Position as at
At 31 December 2016

(in millions of Russian roubles)	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	26 697	31 263
Mandatory cash balances with the Bank of Russia		1 583	1 122
Trading securities	8	1 669	5 349
Due from other banks	9	3 652	3 408
Loans and advances to customers	10	175 078	157 454
Investment securities available for sale	11	16 793	11 789
Other financial assets	12	1 450	1 814
Investment property	13	3 825	54
Other assets	14	665	4 471
Non-current assets held for sale	14	1 152	365
Premises, equipment and intangible assets	15	5 193	5 317
Deferred income tax asset	25	1 136	1 482
TOTAL ASSETS		**238 893**	**223 888**
LIABILITIES			
Due to other banks	16	4 150	19 811
Customer accounts	17	200 946	169 658
Debt securities in issue	18	5 001	7 433
Other financial liabilities	20	577	491
Other liabilities		850	554
Subordinated loans	19	3 608	3 730
TOTAL LIABILITIES		**215 132**	**201 677**
EQUITY			
Share capital	21	250	250
Share premium	21	7 306	7 306
Retained earnings	21	14 118	12 003
Revaluation reserve for investment securities available for sale		150	766
Revaluation reserve for premises and equipment		1 937	1 886
TOTAL EQUITY		**23 761**	**22 211**
TOTAL LIABILITIES AND EQUITY		**238 893**	**223 888**

Approved for issue and signed on 20 March 2017.

K. V. Basmanov
Chairman of the Management Board

E. V. Volik
Chief Accountant

(in millions of Russian roubles)	Note	2016	2015
Interest income	22	24 446	23 735
Interest expense	22	(14 064)	(13 675)
Net interest income		**10 382**	**10 060**
Provision for loan impairment	10	(4 104)	(9 451)
Net interest income after provision for loan impairment		**6 278**	**609**
Fee and commission income	23	5 160	4 571
Fee and commission expense	23	(836)	(765)
(Losses less gains) / gains less losses from trading securities		(50)	198
(Losses less gains) / gains less losses from trading in foreign currencies		(1 214)	805
Gains less losses / (losses less gains) from foreign exchange translation		1 592	(333)
Gains less losses reclassified to profit or loss as a result of disposals		750	-
Gains less losses from disposals of investment securities available for sale		122	140
Other operating income		152	348
Administrative and other operating expenses	24	(8 845)	(9 146)
Losses on initial recognition of assets at rates below market		(516)	-
Provision for non-credit related commitments		11	(43)
Provision for credit related commitments		-	92
Provision for impairment of other assets	14	(32)	(1 023)
Reversal of losses / (losses) from revaluation of premises	15	73	(182)
Fair valuation of investment properties	13	25	-
Profit/(loss) before tax		**2 670**	**(4 729)**
Income tax	25	(555)	954
PROFIT/(LOSS) FOR THE YEAR		**2 115**	**(3 775)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available for sale investments:			
- Change in revaluation reserve		(33)	411
- Gains less losses reclassified to profit or loss as a result of disposals		(750)	-
- Income tax related to revaluation of investments available for sale	25	167	(101)
Items that will not be reclassified to profit or loss			
Premises:			
- Change in revaluation reserve	15	64	2 358
- Income tax related to revaluation of premises	25	(13)	(472)
Other comprehensive (loss)/income for the year		**(565)**	**2 196**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1 550**	**(1 579)**
Basic and diluted earnings/(loss) per ordinary share			
(expressed in RR per share)			
Ordinary shares	26	84	(151)

(in millions of Russian roubles)	Note	Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total
Balance at 1 January 2015		**250**	**7 306**	**456**	**-**	**15 792**	**23 804**
Loss for the year		-	-	-	-	(3 775)	(3 775)
Other comprehensive income for the year		-	-	310	1 886	-	2 196
Total comprehensive income/(loss) for the year		-	-	310	1 886	(3 775)	(1 579)
Dividends declared	27	-	-	-	-	(14)	(14)
Balance at 31 December 2015		**250**	**7 306**	**766**	**1 886**	**12 003**	**22 211**
Profit for the year		-	-	-	-	2 115	2 115
Other comprehensive (loss)/income		-	-	(616)	51	-	(565)
Total comprehensive (loss)/income for the year		-	-	(616)	51	2 115	1 150
Balance at 31 December 2016		**250**	**7 306**	**150**	**1 937**	**14 118**	**23 761**

(in millions of Russian roubles)	Note	2016	2015
Cash flows from operating activities			
Interest received		23 870	23 558
Interest paid		(14 298)	(14 010)
Fees and commissions received		5 060	4 572
Fees and commissions paid		(836)	(792)
Net income received from trading in trading securities		18	35
Net (losses paid)/income received from trading in foreign currencies		(1 209)	805
Other operating (losses paid)/income received		(50)	407
Staff costs paid		(4 877)	(5 184)
Administrative and other operating expenses paid		(3 206)	(3 932)
Income tax recovered/(paid)		231	(81)
Cash flows from operating activities before changes in operating assets and liabilities		**4 703**	**5 378**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Bank of Russia		(461)	743
Trading securities		3 315	8 972
Due from other banks		(1 079)	(1 955)
Loans and advances to customers		(24 574)	(10 894)
Other financial assets		154	(215)
Other assets		350	751
Net increase/(decrease) in operating liabilities			
Due to other banks		(15 423)	704
Customer accounts		37 116	(10 742)
Promissory notes and deposit certificates		45	327
Other financial liabilities		92	(66)
Other liabilities		90	36
Net cash from/(used in) operating activities		**4 328**	**(6 961)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(20 062)	(11 998)
Proceeds from disposal of investment securities available for sale		13 229	10 685
Acquisition of premises, equipment and intangible assets	15	(106)	(310)
Proceeds from disposal of premises and equipment		149	21
Proceeds from disposal of non-current assets held for sale		263	392
Proceeds from disposal of investment properties	13	69	-
Dividend income received	27	17	16
Net cash used in investing activities		**(6 441)**	**(1 194)**
Cash flows from financing activities			
Proceeds from issued mortgage backed bonds	18	-	3 450
Redemption of issued mortgage backed bonds		(2 479)	(2 385)
Dividends paid		-	(14)
Repayment of funding from international financial institution	16	-	(379)
Net cash (used in) / from financing activities		**(2 479)**	**672**
Effect of exchange rate changes on cash and cash equivalents		**26**	**3 119**
Net decrease in cash and cash equivalents		**(4 566)**	**(4 364)**
Cash and cash equivalents at the beginning of the year	7	31 263	35 627
Cash and cash equivalents at the end of the year	7	**26 697**	**31 263**

(in millions of Russian roubles)

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016 for Bank Vozrozhdenie (PAO) (the "Bank"), its subsidiaries and its securitisation structured entities, ZAO IAV 3 and OOO IAV 4 (together referred to as the "Group").

The Bank was incorporated and operates in the Russian Federation. The Bank is a public joint-stock company.

Principal activity. The Bank's principal business activity is banking and other operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Bank of Russia since 1991. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand (before 29 December 2014: RR 700 thousand) per individual if a licence is withdrawn from a bank or the Bank of Russia has imposed moratorium on payments.

The Bank has 31 (2015: 53) branches in the Russian Federation. Currently the Bank is in the process of reorganising its branch network.

Information about the Bank's structural subdivisions is provided below:

	2016	**2015**
Branches	31	53
Additional offices	86	78
Operational cash desks and offices	4	7

The Bank's Head Office is located at the following address: 7/4 Luchnikov Pereulok, Bldg 1, Moscow 101000, Russian Federation.

Mr D.L. Orlov, the Bank's founder and previous principal shareholder, died on 5 December 2014. The succession was opened as at 31 December 2014. In the second six months of 2015, the Orlovs decided to sell the controlling equity stake in favour of Promsvyaz Capital B.V. (the Netherlands).

As at 31 December 2016 and 31 December 2015, the Bank's parent company is Promsvyaz Capital B.V. (the Netherlands) holding 52.73% of ordinary shares. The owners of Promsvyaz Capital B.V. (the Netherlands) are Antracite Investment Limited (UK) and Urgula Platinum Limited (UK), each holding a 50% interest. Antracite Investment Limited (UK) is owned by Mr A.N. Ananyev. Urgula Platinum Limited (UK) is owned by Mr D.N. Ananyev. Mr A.N. Ananyev and Mr D.N. Ananyev exercise joint control over the Group.

At 31 December 2016 and 31 December 2015 the Bank's other shareholders are:

	Percentage of the total number of ordinary shares, %	
	2016	**2015**
OOO VectorInvest (Limited Liability Company)	10.53	10.53
Victor Alexandrovich Pichugov	10.0	10.0
MOSCOW CREDIT BANK (Open Joint Stock Company)	9.07	7.61
Nikolai Dmitrievich Orlov	6.98	6.98
Other shareholders holding less than 5%	10.69	12.15

1 Introduction (Continued)

The Bank is a head credit institution of the banking group (the Group) which includes the following members:

Name of the member	Location	Interest held rounded to the nearest whole number, %	
		2016	**2015**
ZAO IAV 1	Moscow	-	-
ZAO IAV 2	Moscow	-	-
ZAO IAV 3	Moscow	-	-
OOO IAV 4	Moscow	-	-
OOO Vozrozhdenie-Finance	Moscow	100	100
ZAO V-REGISTER	Moscow	100	100
OAO YUNOST	Moscow Region	55	55
OOO Baltic Resort	Kaliningrad Region	51	51

ZAO IAV 1, ZAO IAV 2, ZAO IAV 3, OOO IAV 4 are structured entities engaged in securitisation of the Bank's mortgage loans. The Bank does not hold any shares (units) in these entities. As at 31 December 2016, the ceased to consolidate structured entities ZAO IAV 1 and ZAO IAV 2 due to early repayment of class A and class B mortgage backed bonds followed by liquidation of entities.

The core asset of *OOO Vozrozhdenie-Finance* is a mineral water bottling plant in the Stavropol Region, which the Bank provided as an asset contribution to the Company's charter capital. The Bank is looking for an investor for the disposal of the asset.

The core activity of *ZAO V-REGISTER* is financial leasing.

OAO YUNOST is a recreation centre engaged in therapeutic and resort activity in Schelkovsky District, Moscow Region.

OOO Baltic Resort was engaged in construction of a recreation tourist area in Kaliningrad Region and since 2015 year is in stage of bankruptcy.

Presentation currency. These consolidated financial statements are presented in millions of Russian Roubles (“RR millions”).

2 Operating Environment of the Group

The Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 31). During 2016, the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

2 Operating Environment of the Group (Continued)

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Notes 4 and 10.

3 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 initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised 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 (refer to Note 5).

Consolidated financial statements. Subsidiaries are those 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. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; Unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost Description of these methods is presented below.

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 best evidence of fair value is quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

3 Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

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.

Amortised cost is the amount at which the financial instrument was recognised 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 amortisation 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 amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

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. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects 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 amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

3 Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments 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 on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises 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 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 needing to impose restrictions on the sale.

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. All short term interbank placements, beyond placements with banks with original maturity less than one month, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank'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.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities 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, i.e. within six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established, and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

3 Significant Accounting Policies (Continued)

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated 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 repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee 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 for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other liabilities.

Due from other banks. Amounts due from other 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 other banks are carried at amortised 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 amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised 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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The acquired non-financial assets are initially recognised at fair value and are included in premises and equipment, long-term assets held for sale, investment properties or inventories within other assets. The acquired financial and non-financial assets are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Non-current assets held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the consolidated statement of financial position as 'non-current assets held for sale' 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 criteria 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 consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

Investment property. Investment property is property held by the Bank (land or building or a part of building, or both) to earn rental income or for capital appreciation, or both, but not to be used for its core operations. Investment property is initially recognised at cost, including transaction costs.

Subsequent to initial recognition, investment property is stated at fair value which is based on its market value. Frequency of revaluation depends on changes in fair value of investment properties, but not less than once a year. Estimation of fair value may be carried out through engagement of an independent appraiser, or by performing an internal expert evaluation.

3 Significant Accounting Policies (Continued)

Any changes in the fair value are recorded within profit or loss for the reporting period.

Earned rental income is recorded in the consolidated statement of profit or loss and other comprehensive income within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised only when it is probable that 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 owner-occupied, it is reclassified to premises and equipment.

Inventories. Inventories include the assets acquired or held for sale in the normal course of business and also those intended for the use in the course of service provision.

On initial recognition inventories are measured at cost. Subsequently, inventories are measured at the lower of cost and possible net realisable value. Cost of inventories includes all costs of acquisition and other costs of their conditioning for the intended use. Acquisition costs include purchase price, transportation costs and other costs directly attributable to the acquisition. The costs that are excluded from the cost of inventories and are recognised as expenses in the period when they are incurred include: holding costs, administrative overhead costs that are not associated with bringing inventories to their current location and condition; costs to sell. Possible net realisable value is an estimated sales price in the course of normal business less possible costs of work and possible costs to sell.

Write-off of inventories to possible net realisable value is recognised as an expense within profit or loss during the period of write-off or the period of loss. If possible net realisable value increases the written down value of inventories is recovered within the amount not exceeding the earlier recognised loss.

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 recognised at their fair value. This amount is amortised 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. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised 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 unamortised 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 recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

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.

3 Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on debt securities debt securities available for sale is calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on equity instruments available for sale are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Remeasurement

Operating real estate (buildings and land plots) is subject to revaluation on a regular basis by independent appraisers. Regularity of revaluation depends on changes in fair value of buildings and land, but not less than once a year. An increase from revaluation of buildings and land is recorded directly in other comprehensive income, unless the prior decrease from revaluation of these buildings, which is recorded in profit or loss, is reversed. In this case the revaluation result is recorded in profit or loss. A decrease from revaluation of buildings and land is recorded in profit or loss, unless the prior increase from revaluation of these buildings, which is recorded in other comprehensive income, is reversed. In this case the decrease from revaluation is also recorded in other comprehensive income.

The carrying amount of the asset under revaluation is reduced by the amount of accumulated depreciation at the revaluation date and restated to fair value.

Upon write-off or disposal of an asset the realised gain from revaluation, which is recorded in other comprehensive income, is transferred directly to retained earnings.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Gains or losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2%;
Office and computer equipment	15-20%;
Intangible assets	20%.

3 Significant Accounting Policies (Continued)

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 were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

The Group classifies acquired and/or developed non-monetary assets that do not have a physical form, such as exclusive rights, licenses, computer software, as intangible assets.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Useful life is determined on the date of recognition of an intangible asset based on the term of the licence, patent, useful life of an intangible asset according to terms of the related contract. For intangible assets without useful lives specified in the contract, licences or patents, useful life is five years.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own 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 gains arising from retirement of debt.

Mortgage backed bonds in issue. Mortgage backed bonds are bonds secured by mortgage loans collateralised by mortgage certificates. Mortgage backed bonds are recorded at amortised cost and are to be redeemed when the mortgage loans are repaid or can be redeemed pre-maturely.

Subordinated loans. Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Group, the repayment of these loans is subordinated to all other creditors of the Group. Subordinated loans are included in the calculation of capital in accordance with Russian Accounting Rules.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value at the end of the reporting period is positive and as liabilities when fair value at the end of the reporting period is negative. Changes in the fair value of derivative financial instruments are included in profit or loss. The Group does not apply hedge accounting.

3 Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. 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. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method 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 recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination 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 end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred income tax assets for deductible temporary differences and tax loss carried forwards are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries 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.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of a reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions 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 the amount of the obligation can be estimated.

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

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the share capital. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

3 Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest 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 of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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.

Foreign currency translation. The Group's functional and presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities into the Group's functional currency at year-end official exchange rates of the Bank of Russia are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss. The following official exchange rates were used to translate balances of foreign currency-denominated accounts at 31 December:

	2016	**2015**
RR/USD 1	60.6569	72.8827
RR/EUR 1	63.8111	79.6972

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Staff costs and related contributions. Wages, salaries, contributions to non-budget funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3 Significant Accounting Policies (Continued)

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of consolidated 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 based on their expected maturities. Refer to Note 29.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Changes in the accounting policies introduced by the Group in 2016

As at 31 December 2016, the Group changed its approach to segmentation of loans to legal entities depending on the revenue of the client / group of related borrowers. Refer to Note 10.

For estimation of provision for impairment of mortgage loans as at 31 December 2016, the Group applied the recovery rate calculated based on historic experience of collateral sale. If this rate was applied as at 31 December 2015, it would not have a significant influence on provision for impairment of mortgage loans.

To ensure consistency with the accounting policies applied by the Group's parent, the Bank has adopted the fair value technique to account for investment properties since 2016. Refer to Note 13.

At the end of 2016 the Group changed its approach to classification of inventories. As a result, residential and non-residential property, land plots and property rights amounting to RR 2 356 million were reclassified from inventories to investment property. Refer to Note 13.

(in millions of Russian roubles)	**Investment property**	**Inventories**
Reclassification of carrying amount less provision in 2016, including:	2 356	(2 356)
carrying amount	*4 064*	*(4 064)*
provision for impairment	*(1 708)*	*1 708*

Starting from 2016 due to the change of the organisational structure of the Group it was decided to consolidate operating segments Retail Business and Bank Cards Transactions for the purposes of information disclosure in Segment Analysis into one operating segment Retail Business.

As at 31 December 2016 results of the reportable segments as well as its assets and liabilities were prepared based on IFRS and are analysed by management of the Bank. Refer to the Note 28.

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements include:

- Loan impairment estimates – Refer to Note 10;
- Investment securities available for sale – Refer to Note 11;
- Investment property revaluation estimates – Refer to Note 13;
- Real estate revaluation estimates – Refer to Note 15;
- Deferred tax asset – Refer to Note 25.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

5 Adoption of New or Revised Standards and Interpretations

The following 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 recognise 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 recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its financial statements.

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 property, plant 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 will remain within the scope of IAS 41. The Group is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

5 Adoption of New or Revised Standards and Interpretations

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Group is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, 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). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised 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 (FVPL).
- 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 amortised 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 FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

6 New Accounting Pronouncements (Continued)

- 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 Group is currently assessing the impact of the new standard on its financial statements.

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 recognised 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 recognised, 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

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 recognised 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. The Group is currently assessing the impact of the amendment on its financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

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 on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Recognition of Deferred Tax Assets for Unrealised 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 unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised 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. The Group is currently assessing the impact of the amendments on its financial statements.

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. The Group is currently assessing the impact of the amendment on its financial statements.

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 derecognised upon the modification, (c) the equity-settled share-based payment is recognised 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 recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the amendment on its financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise 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, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard - IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility. The Group is currently assessing the impact of the amendments on its separate financial statements.

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. The Group is currently assessing the impact of the amendments on its financial statements.

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. The Group is currently assessing the impact of the amendments on its financial statements.

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 currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

7 Cash and Cash Equivalents

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Cash on hand	9 126	10 388
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	6 841	5 604
Correspondent accounts and placements with banks with original maturity less than one month		
- Russian Federation	7 215	965
- other countries	3 515	14 306
Total cash and cash equivalents	**26 697**	**31 263**

The credit quality of cash and cash equivalents balances may be summarised as follows:

	31 December 2016		**31 December 2015**	
(in millions of Russian roubles)	**Cash balances with the Bank of Russia (other than mandatory reserve deposits)**	**Correspondent accounts and placements with banks with original maturity less than one month**	**Cash balances with the Bank of Russia (other than mandatory reserve deposits)**	**Correspondent accounts and placements with banks with original maturity less than one month**
Neither past due nor impaired				
- Bank of Russia	6 841	-	5 604	-
- AA- to AA+ rated	-	686	-	9 476
- A- to A+ rated	-	1 950	-	1 010
- BBB- to BBB+ rated	-	5 904	-	3 477
- BB- to BB+ rated	-	2 167	-	1 199
- B- to B+ rated	-	-	-	18
- unrated	-	23	-	91
Total cash and cash equivalents, excluding cash on hand	**6 841**	**10 730**	**5 604**	**15 271**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Cash and cash equivalents were not used as collateral or pledged.

At 31 December 2016 the total amount of five major aggregated balances on correspondent accounts and placements with banks with original maturity less than one month was RR 9 683 million or 90% (2015: RR 13 930 million or 91%) of cash balances on correspondent accounts and placements with banks with original maturity less than one month.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 29.

Transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Non-cash operating activities		
Other assets acquired by the Group in settlements of overdue loans and advances to customers	1 762	1 057
Repayment of loans and advances to customers by non-cash assets	(1 762)	(1 057)
Non-cash operating activities	**-**	**-**

Additional information on non-cash transactions is disclosed in Notes 13 and 14 with a detailed description of assets acquired by the Group in settlements of overdue loans and advances to customers.

8 Trading Securities

(in millions of Russian roubles)	31 December 2016	31 December 2015
Russian Federation Eurobonds	863	-
Corporate bonds	446	445
Corporate Eurobonds	360	4 898
Total debt securities	**1 669**	**5 343**
Corporate shares	-	6
Total trading securities	**1 669**	**5 349**

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

(in millions of Russian roubles)	Russian Federation Eurobonds	Corporate bonds	Corporate Eurobonds	Total
Neither past due nor impaired (at fair value)				
- BBB- to BBB+ rated	-	446	-	446
- BB- to BB+ rated	863	-	360	1 223
Total trading securities	**863**	**446**	**360**	**1 669**

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

(in millions of Russian roubles)	Russian Federation Eurobonds	Corporate bonds	Corporate Eurobonds	Total
Neither past due nor impaired (at fair value)				
- BB- to BB+ rated	-	445	4 898	5 343
Total trading securities	**-**	**445**	**4 898**	**5 343**

The credit ratings are based on Standard & Poor’s ratings where available, or Moody’s rating converted to the nearest equivalent on the Standard & Poor’s rating scale.

Russian Federation Eurobonds represent interest-bearing securities denominated in USD.

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by banks and freely tradable in the Russian Federation.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies and freely tradable internationally.

8 Trading Securities (Continued)

Maturities, coupon rates and yields to maturity of the debt trading securities at 31 December 2016 are presented below:

	Maturity date		**Annual coupon rate**		**Annual yield to maturity**	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Russian Federation Eurobonds	April 2042	April 2042	5.6%	5.6%	5.1%	5.1%
Corporate bonds	March 2019	March 2019	10.0%	10.0%	9.9%	9.9%
Corporate Eurobonds	March 2017	March 2022	3.2%	6.6%	2.6%	4.5%

Maturities, coupon rates and yields to maturity of the debt trading securities at 31 December 2015 are presented below:

	Maturity date		**Annual coupon rate**		**Annual yield to maturity**	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Corporate bonds	September 2016	September 2016	11.7%	11.7%	12.2%	12.2%
Corporate Eurobonds	February 2016	October 2016	5.0%	7.5%	1.8%	3.1%

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. The debt securities are not collateralised.

At 31 December 2015 trading securities of RR 3 201 million were pledged under direct sale and repurchase agreements with the Bank of Russia.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Trading securities are used by the Group basically for managing liquidity risk.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 29.

9 Due from Other Banks

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Short-term placements with other banks	2 939	2 209
Insurance deposits with non-resident banks	713	1 199
Total due from other banks	**3 652**	**3 408**

9 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2016, is as follows:

(in millions of Russian roubles)	Short-term placements in other banks	Insurance deposits with non-resident banks	Total
Neither past due nor impaired			
- AA- to AA+ rated	-	121	121
- BBB- to BBB+ rated	14	592	606
- B- to B+ rated	1 860	-	1 860
- C- to C+ rated	965	-	965
- unrated	100	-	100
Total due from other banks	**2 939**	**713**	**3 652**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2015, is as follows:

(in millions of Russian roubles)	Short-term placements in other banks	Insurance deposits with non-resident banks	Total
Neither past due nor impaired			
- AA- to AA+ rated	-	410	410
- BBB- to BBB+ rated	1 000	789	1 789
- BB- to BB+ rated	1 004	-	1 004
- unrated	205	-	205
Total due from other banks	**2 209**	**1 199**	**3 408**

The credit ratings are based on Standard & Poor’s ratings where available, or Moody’s rating converted to the nearest equivalent on the Standard & Poor’s rating scale.

Amounts due from other banks are not collateralised and not pledged.

At 31 December 2016, in compliance with the requirements of payment systems, the Group placed insurance deposits of RR 713 million at LIBOR rate with non-resident banks located in the United Kingdom for the purpose of banking card settlements (2015: RR 1 199 million). Refer to Note 31.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of amounts due from other banks.

10 Loans and Advances to Customers

(in millions of Russian roubles)	31 December 2016	31 December 2015
Loans to corporate customers	**94 515**	**82 665**
Loans to small and medium entities	**31 685**	**38 043**
Mortgage loans	**45 493**	**35 938**
Other loans to individuals	**18 416**	**16 733**
including:		
consumer loans	16 509	14 591
car loans	92	168
bank card loans	1 815	1 974
Total loans and advances to customers before provision for loan impairment	**190 109**	**173 379**
Less provision for loan impairment	(15 031)	(15 925)
Total loans and advances to customers less impairment provision	**175 078**	**157 454**

As at 31 December 2016, the Group changed its approach to segmentation of loans to legal entities depending on the revenue of the client / group of related borrowers: loans to corporate clients (with revenues exceeding RR 4 500 million) and loans to medium and small entities (with revenues RR 4 500 million and less). Loans to state and municipal institutions are categorised as loans to corporate clients, irrespectively to their revenues. As decided by the management of the Group, when issued, a loan may be allocated to one of the categories irrespective to revenues.

Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans.

At 31 December 2016, mortgage loans include loans securitised in 2011-2015 amounting to RR 4 252 million (less impairment provision), at 31 December 2015 – amounting to RR 8 739 million (less impairment provision). Management of the Group determined that the Group had not transferred main risks with respect to the transferred assets, and, consequently, such transfer was not the ground for their derecognition. Refer to Notes 18 and 32.

The Group classifies loans with principal and/or interest overdue more than 90 days into the non-performing loans category.

The non-performing loans at 31 December 2016 are as follows:

(in millions of Russian roubles)	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Loans to corporate customers	8 930	(3 852)	5 078	43.1%
Loans to small and medium entities	4 168	(3 785)	383	90.8%
Mortgage loans	609	(320)	289	52.5%
Other loans to individuals	1 075	(1 063)	12	98.9%
Total non-performing loans	**14 782**	**(9 020)**	**5 762**	**61.0%**

10 Loans and Advances to Customers (Continued)

The non-performing loans at 31 December 2015 are as follows:

(in millions of Russian roubles)	**Loans before provision for impairment**	**Provision for impairment**	**Loans less provision for impairment**	**Provision-to-loan ratio before provision**
Loans to corporate customers	8 255	(6 498)	1 757	78.72%
Loans to small and medium entities	4 520	(3 787)	733	83.78%
Mortgage loans	547	(475)	72	86.8%
Other loans to individuals	787	(777)	10	98.7%
Total non-performing loans	**14 109**	**(11 537)**	**2 572**	**81.8%**

Movements in the provision for loan impairment during 2016 are as follows.

(in millions of Russian roubles)	**Loans to legal entities**	**Mortgage loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2016	**14 418**	**537**	**970**	**15 925**
Provision for impairment during the year	4 230	(140)	519	4 609
Loans and advances to customers written off during the year	(4 069)	-	(2)	(4 071)
Recovery of provision resulting from disposal of loans	(1 236)	-	(196)	(1 432)
Provision for loan impairment at 31 December 2016	**13 343**	**397**	**1 291**	**15 031**

The provision for loan impairment during 2016 differs from the amount presented in profit or loss for the reporting period due to recovery of provision for loans previously written off as uncollectible amounting to RR 505 million. The amount of the recovery was credited directly to the provisions line in profit or loss for the period.

Movements in the provision for loan impairment during 2015 are as follows:

(in millions of Russian roubles)	**Loans to legal entities**	**Mortgage loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2015	**13 493**	**330**	**609**	**14 432**
Provision for impairment during the year	8 973	208	547	9 728
Loans and advances to customers written off during the year	(4 124)	(1)	(2)	(4 127)
Recovery of provision resulting from disposal of loans	(3 924)	-	(184)	(4 108)
Provision for loan impairment at 31 December 2015	**14 418**	**537**	**970**	**15 925**

The provision for loan impairment during 2015 differs from the amount presented in profit or loss for the year due recovery of provision for loans previously written off as uncollectible amounting to RR 277 million. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2016				31 December 2015			
(in millions of Russian roubles)	**Loans**	**%**	**Provision**	**%**	**Loans**	**%**	**Provision**	**%**
Individuals	63 909	34	1 688	11	52 671	30	1 507	9
Manufacturing	43 432	23	4 702	31	40 627	24	5 811	37
Trade	21 756	12	3 469	23	26 177	15	3 566	22
Construction	17 690	9	2 457	16	14 333	8	2 297	14
State and municipal organisations	9 909	5	99	1	10 571	6	92	1
Real estate	8 393	4	460	3	8 365	5	454	3
Agriculture	7 892	4	209	1	7 598	4	441	3
Finance	3 511	2	333	3	1 221	1	53	0
Transport	3 082	2	1 039	7	3 597	2	1 000	6
Telecommunications and MM	423	-	288	2	411	-	409	3
Other	10 112	5	287	2	7 808	5	295	2
Total	**190 109**	**100**	**15 031**	**100**	**173 379**	**100**	**15 925**	**100**

At 31 December 2016, loans and advances to customers include loans with a carrying amount of RR 3 294 million (2015: RR 3 585 million) with receivable balances pledged as collateral for term placements of AO MSP Bank. Refer to Notes 16 and 31.

As at 31 December 2016, the Group has no outstanding loans or advances to customers pledged as collateral for term deposits of the Bank of Russia (2015: RR 2 966 million). Refer to Notes 16 and 32.

Credit risk concentrations

As at 31 December 2016, the aggregate amount of loans issued to 20 largest borrowers (or groups of related borrowers) was RR 48 293 million (31 December 2015: RR 48 112 million) or 25% (31 December 2015: 28%) of total loan portfolio before impairment.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of corporate portfolio loans outstanding as at 31 December 2016 is as follows:

(in millions of Russian roubles)	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Loans to corporate customers				
Loans assessed on an individual basis and collectively without signs of impairment	**76 990**	**(1 714)**	**75 276**	**2.2%**
Impaired loans				
Assessed on an individual basis				
- not past due	8 584	(1 997)	6 587	23.3%
- less than 30 days overdue	11	(7)	4	63.6%
- 91 to 180 days overdue	994	(72)	922	7.2%
- 181 to 360 days overdue	1 698	(1 018)	680	60.0%
- over 360 days overdue	5 774	(2 298)	3 476	39.8%
Assessed collectively				
- over 360 days overdue	464	(464)	-	100.0%
Total impaired loans	**17 525**	**(5 856)**	**11 669**	**33.4%**
Total loans to corporate customers	**94 515**	**(7 570)**	**86 945**	**8.0%**
Loans to small and medium entities				
Loans assessed on an individual basis and collectively without signs of impairment	**22 303**	**(496)**	**21 807**	**2.2%**
Overdue but not impaired loans assessed collectively				
- less than 30 days overdue	142	(3)	139	2.1%
- 31 to 60 days overdue	209	(5)	204	2.4%
- 61 to 90 days overdue	6	-	6	-
Total overdue but not impaired loans	**357**	**(8)**	**349**	**2.2%**
Impaired loans				
Assessed on an individual basis				
- not past due	4 811	(1 480)	3 331	30.8%
- 181 to 360 days overdue	386	(386)	-	100.0%
- over 360 days overdue	287	(287)	-	100.0%
Assessed collectively				
- not past due	46	(4)	42	8.7%
- 91 to 180 days overdue	466	(345)	121	74.0%
- 181 to 360 days overdue	947	(685)	262	72.3%
- over 360 days overdue	2 082	(2 082)	-	100.0%
Total impaired loans	**9 025**	**(5 269)**	**3 756**	**58.4%**
Total loans to small and medium enterprises	**31 685**	**(5 773)**	**25 912**	**18.2%**
Total loans to legal entities	**126 200**	**(13 343)**	**112 857**	**10.6%**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of corporate portfolio loans outstanding as at 31 December 2015 is as follows:

(in millions of Russian roubles)	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Loans to corporate customers				
Loans assessed on an individual basis and collectively without signs of impairment	**66 109**	**(1 367)**	**64 742**	**2.1%**
Impaired loans				
Assessed on an individual basis				
- not past due	6 562	(1 445)	5 117	22.0%
- less than 30 days overdue	1 200	(25)	1 175	2.1%
- 31 to 60 days overdue	539	(118)	421	21.9%
- 91 to 180 days overdue	1 963	(1 530)	433	77.9%
- 181 to 360 days overdue	1 232	(270)	962	21.9%
- over 360 days overdue	4 231	(3 872)	359	91.5%
Assessed collectively				
- 91 to 180 days overdue	205	(204)	1	99.5%
- 181 to 360 days overdue	27	(25)	2	92.6%
- over 360 days overdue	597	(597)	-	100.0%
Total impaired loans	**16 556**	**(8 086)**	**8 470**	**48.8%**
Total loans to corporate customers	**82 665**	**(9 453)**	**73 212**	**11.4%**
Loans to small and medium entities				
Loans assessed on an individual basis and collectively without signs of impairment	**30 527**	**(380)**	**30 147**	**1.2%**
Overdue but not impaired loans assessed collectively				
- less than 30 days overdue	69	(8)	61	11.6%
- 31 to 60 days overdue	209	(83)	126	39.7%
- 61 to 90 days overdue	127	(54)	73	42.5%
Total overdue but not impaired loans	**405**	**(145)**	**260**	**35.8%**
Impaired loans				
Assessed on an individual basis				
- not past due	2 591	(653)	1 938	25.2%
- 91 to 180 days overdue	45	(45)	-	100.0%
- over 360 days overdue	409	(409)	-	100.0%
Assessed collectively				
- 91 to 180 days overdue	561	(300)	261	53.5%
- 181 to 360 days overdue	1 198	(726)	472	60.6%
- over 360 days overdue	2 307	(2 307)	-	100.0%
Total impaired loans	**7 111**	**(4 440)**	**2 671**	**62.4%**
Total loans to small and medium enterprises	**38 043**	**(4 965)**	**2 243**	**13.1%**
Total loans to legal entities	**120 708**	**(14 418)**	**6 319**	**11.9%**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of retail portfolio loans outstanding as at 31 December 2016 is as follows:

(in millions of Russian roubles)	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Mortgage loans				
- not past due	44 715	(46)	44 669	0.1%
- less than 30 days overdue	86	(11)	75	12.8%
- 31 to 60 days overdue	78	(19)	59	24.4%
- 61 to 90 days overdue	5	(1)	4	20.0%
- 91 to 180 days overdue	104	(44)	60	42.3%
- 181 to 360 days overdue	110	(60)	50	54.5%
- over 360 days overdue	395	(216)	179	54.7%
Total mortgage loans	**45 493**	**(397)**	**45 096**	**0.9%**
Other loans to individuals				
Consumer loans				
- not past due	15 259	(48)	15 211	0.3%
- less than 30 days overdue	209	(79)	130	37.8%
- 31 to 60 days overdue	83	(47)	36	56.6%
- 61 to 90 days overdue	50	(36)	14	72.0%
- 91 to 180 days overdue	148	(138)	10	93.2%
- 181 to 360 days overdue	275	(275)	-	100.0%
- over 360 days overdue	485	(485)	-	100.0%
Total consumer loans	**16 509**	**(1 108)**	**15 401**	**6.7%**
Car loans				
- not past due	69	-	69	-
- less than 30 days overdue	-	-	-	-
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	1	(1)	-	100.0%
- over 360 days overdue	22	(22)	-	100.0%
Total car loans	**92**	**(23)**	**69**	**25.0%**
Bank card loans				
- not past due	1 623	(5)	1 618	0.3%
- less than 30 days overdue	33	(4)	29	12.1%
- 31 to 60 days overdue	8	(4)	4	50.0%
- 61 to 90 days overdue	7	(5)	2	71.4%
- 91 to 180 days overdue	16	(14)	2	87.5%
- 181 to 360 days overdue	36	(36)	-	100.0%
- over 360 days overdue	92	(92)	-	100.0%
Total bank card loans	**1 815**	**(160)**	**1 655**	**8.8%**
Total other loans to individuals	**18 416**	**(1 291)**	**17 125**	**7.0%**
Total loans to individuals	**63 909**	**(1 688)**	**62 221**	**2.6%**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of retail portfolio loans outstanding as at 31 December 2015 is as follows:

(in millions of Russian roubles)	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Mortgage loans				
- not past due	34 725	(36)	34 689	0.1%
- less than 30 days overdue	567	(5)	562	0.9%
- 31 to 60 days overdue	99	(21)	78	21.2%
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	258	(186)	72	72.1%
- 181 to 360 days overdue	96	(96)	-	100.0%
- over 360 days overdue	193	(193)	-	100.0%
Total mortgage loans	**35 938**	**(537)**	**35 401**	**1.5%**
Other loans to individuals				
Consumer loans				
- not past due	13 583	(31)	13 552	0.2%
- less than 30 days overdue	236	(44)	192	18.6%
- 31 to 60 days overdue	105	(55)	50	52.4%
- 61 to 90 days overdue	55	(40)	15	72.7%
- 91 to 180 days overdue	117	(110)	7	94.0%
- 181 to 360 days overdue	216	(216)	-	100.0%
- over 360 days overdue	279	(279)	-	100.0%
Total consumer loans	**14 591**	**(775)**	**13 816**	**5.3%**
Car loans				
- not past due	120	-	120	0.0%
- less than 30 days overdue	13	(1)	12	7.7%
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	1	(1)	-	100.0%
- over 360 days overdue	34	(34)	-	100.0%
Total car loans	**168**	**(36)**	**132**	**21.4%**
Bank card loans				
- not past due	1 782	(5)	1 777	0.3%
- less than 30 days overdue	31	(5)	26	16.1%
- 31 to 60 days overdue	13	(6)	7	46.2%
- 61 to 90 days overdue	8	(6)	2	75.0%
- 91 to 180 days overdue	19	(16)	3	84.2%
- 181 to 360 days overdue	35	(35)	-	100.0%
- over 360 days overdue	86	(86)	-	100.0%
Total bank card loans	**1 974**	**(159)**	**1 815**	**8.1%**
Total other loans to individuals	**16 733**	**(970)**	**15 763**	**5.8%**
Total loans to individuals	**52 671**	**(1 507)**	**51 164**	**2.9%**

10 Loans and Advances to Customers (Continued)

The Group's policy is to classify each loan as 'neither past due nor impaired' until objective evidence of impairment of the loan is identified. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, debt restructuring due to the client's financial difficulties and realisability of related collateral.

Starting from 2016 the Group has changed the approach to the analysis of corporate loans portfolio by credit quality. Classification of loans previously identified as "Loans in "Watch" list " was changed to the category "Impaired loans assessed on an individual basis". Comparable information for 2015 was prepared according to this approach.

Overdue of a loan over 90 days is recognized as the event of default.

The Group estimates loan impairment provision, for which no impairment indicators have been identified on an individual basis, based on its past experience with actual losses incurred and after considering the industry of the borrowers.

Changes in the assessments will influence provision for loan impairment. Were difference between actual and estimated losses on loans to legal entities to increase/decrease by 10% the losses from impairment would be RR 1,334 million higher/lower (2015: RR 1,442 million) respectively.

The Group estimates provision for impairment of the retail loan portfolio by credit product on the basis of historical migration matrix for actual losses incurred over the past 12 months.

Were the period of migration matrices averaging 6 months longer/shorter, the provision for impairment of loan portfolio as at 31 December 2016 would be RR 23 million lower, RR 34 million lower, accordingly (at 31 December 2015: RR 146 million lower, RR 14 million higher, accordingly).

The Group usually issues loans in case there is a liquid and sufficient collateral that is documented in accordance with legally established procedures (except for some credit products used for lending to individuals, overdrafts without collateral. loans to RF constituents and municipal organisations, factoring financing, loan products assessed on an individual basis and authorised for issue without collateral). Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- motor vehicles;
- goods in turnover;
- guarantee deposit;
- banking guarantee;
- state (municipal) guarantee;
- own promissory notes;
- highly liquid securities;
- bullions (gold, silver, platinum and palladium);
- property receivables arising from contractual commitments.

Loans collateralised by third parties may be issued only if the third parties also provide their guarantees as collateral for such loans. In this case:

- the guarantor (a legal entity) should have a financial position not worse than average in accordance with the Group's internal methodologies for evaluation of financial position;
- the guarantor (an individual) should have a good financial position in accordance with the Group's internal methodologies for evaluation of financial position.

10 Loans and Advances to Customers (Continued)

Real estate property (except for land), equipment, motor vehicles and inventory items pledged as collateral should be insured. The insured amount of the collateral should be no less than its collateral value, the term of the insurance contract should expire no earlier than one month after the loan maturity date.

Loans to individuals may be collateralised by the following:

- real estate purchased under the sale agreement using the credit facilities provided by the Group, and encumbered with a mortgage by law;
- pledge of rights to claim under the contract on acquisition of residential real estate at a construction stage;
- pledge of a share - for the residential real estate purchased under the contract on participation in ZhSK;
- real estate owned by individuals or legal entities, burdened with a mortgage;
- motor vehicles;
- guarantees of third parties, in particular employers of the individual borrower;
- pledge of rights to claim on an individual's deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk, the Group uses insurance by borrowers of the pledged item, the individual borrower's life and disability or accident and illness insurance, and also insurance of the risks connected with loss of work.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Group's potential expenses associated with the fulfilment of debtor's obligations.

The collateral value of property is determined when a loan is issued in accordance with the Group's effective procedure.

In addition, the Group has a right for write-off from the borrower's settlement and current accounts with the Group in case of non-fulfilment of loan contract obligations by the borrower.

The market value of property is assumed to be the collateral value of security for credit products included in the retail portfolio. The market value of property should be confirmed by the report on real estate market valuation prepared by a valuation company.

Depending on the credit limit, profession and current employer of the borrower, life and disability insurance can be taken as security for bank card loans. The Group can also require additional collateral.

The financial effect of collateral is presented by disclosing the impact of collateral and other credit enhancements on impairment provisions for loans to legal entities recognised at the end of the reporting period. Without collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Loans to corporate customers	10 423	6 747
Loans to small and medium entities	1 967	425

Financial effect of collateral on mortgage loans as at 31 December 2016 would be RR 292 million due to application of the recovery rate for assessment of loan impairment provisions. Refer to Note 4. Application of this ratio as at 31 December 2015 would have immaterial effect on impairment provisions for mortgage loans and on financial impact of collateral.

Geographical, currency, interest rate and maturity analyses of loans and advances to customers are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers.

11 Investment Securities Available for Sale

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Corporate Eurobonds	9 382	3 936
Corporate bonds	5 335	4 713
Federal loan bonds	1 491	-
Russian Federation Eurobonds	123	1 762
Bonds of constituents of the Russian Federation	77	186
Total debt investment securities available for sale	**16 408**	**10 597**
Corporate shares	385	1 192
Total investment securities available for sale	**16 793**	**11 789**

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

(in millions of Russian roubles)	**Corporate Eurobonds**	**Corporate bonds**	**Federal loan bonds (OFZ)**	**Russian Federation Eurobonds**	**Bonds of constituents of the Russian Federation**	**Total**
Neither past due nor impaired (at fair value)						
- BBB- to BBB+ rated	319	1 329	1 491	-	-	3 139
- BB- to BB+ rated	9 031	3 974	-	123	77	13 205
- B- to B+ rated	32	32	-	-	-	64
Total debt investment securities available for sale	**9 382**	**5 335**	**1 491**	**123**	**77**	**16 408**

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

(in millions of Russian roubles)	**Corporate Eurobonds**	**Corporate bonds**	**Federal loan bonds (OFZ)**	**Russian Federation Eurobonds**	**Bonds of constituents of the Russian Federation**	**Total**
Neither past due nor impaired (at fair value)						
- BBB- to BBB+ rated	-	3 914	-	-	-	3 914
- BB- to BB+ rated	3 936	799	-	1 762	186	6 683
Total debt investment securities available for sale	**3 936**	**4 713**	**-**	**1 762**	**186**	**10 597**

Corporate Eurobonds are interest bearing securities denominated in USD and EUR, issued by large Russian companies and freely tradable internationally.

11 Investment Securities Available for Sale (Continued)

Corporate bonds are interest bearing securities denominated in Russian roubles, issued by large Russian companies and banks and freely tradable in the Russian Federation.

Federal loan bonds (OFZ) are Russian rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian Federation Eurobonds represent interest-bearing securities denominated in USD.

Maturities, coupon rates and yields to maturity of the debt securities available for sale at 31 December 2016 are presented below:

	Maturity date		**Annual coupon rate**		**Annual yield to maturity**	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Corporate Eurobonds	February 2017	April 2019	3.0%	9.3%	0.9%	3.9%
Corporate bonds	January 2017	November 2020	7.9%	13.0%	8.8%	11.5%
Federal loan bonds	June 2017	January 2025	6.4%	11.9%	8.3%	10.8%
Russian Federation Eurobonds	April 2017	April 2017	3.3%	3.3%	2.2%	2.2%
Bonds of constituents of the Russian Federation	November 2023	November 2023	9.7%	9.7%	9.3%	9.3%

Maturities, coupon rates and yields to maturity of the debt securities available for sale at 31 December 2015 are presented below:

	Maturity date		**Annual coupon rate**		**Annual yield to maturity**	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Corporate bonds	January 2016	April 2017	7.7%	17.0%	10.4%	13.8%
Corporate Eurobonds	February 2016	April 2017	3.8%	5.7%	3.3%	4.8%
Russian Federation Eurobonds	April 2017	April 2017	3.3%	3.3%	3.3%	3.3%
Bonds of constituents of the Russian Federation	June 2016	June 2016	7.0%	7.0%	10.9%	10.9%

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. Debt investment securities available for sale are carried at fair value which also reflects any credit risk related write-downs. Debt securities available for sale are not collateralised.

At 31 December 2015 investment securities available for sale in the amount of RR 1 477 million were pledged under direct sale and repurchase agreements with the Bank of Russia.

Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 29.

12 Other Financial Assets

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Settlements with currency and stock exchanges	919	729
Banking cards receivables	351	320
Receivables	180	760
Other	-	5
Total other financial assets	**1 450**	**1 814**

Other financial assets are neither past due, impaired nor collateralised.

Geographical, currency and maturity analyses of financial assets are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of other financial assets.

13 Investment property

(in millions of Russian roubles)	31 December 2016	31 December 2015
Investment property	3 825	54
Total investment property	**3 825**	**54**

Under IAS 40, investment property includes real estate and property rights repossessed by the Group in settlements of overdue loans and leased out under operating lease or retained until the growth of their value:

(in millions of Russian roubles)	31 December 2016	31 December 2015
Non-residential premises	1 668	54
Residential premises	1 269	-
Land plots	888	-
Total investment property	**3 825**	**54**

To ensure consistency with the accounting policies applied by the Group's parent, the Bank has adopted the fair value technique to account for investment properties since 2016. This change has not have a material impact on these consolidated financial statements. A retrospective recalculation as at 31 December 2015 had no significant impact on the consolidated financial statements of the Group. At the end of 2016 the Group changed its approach to classification of inventories. As a result, residential and non-residential property, land plots and property rights amounting to RR 2 356 million were reclassified from inventories to investment property.

Movements in the carrying value of non-core assets during 2016 were as follows:

(in millions of Russian roubles)	Investment property	Inventories	Non-current assets held for sale
Carrying amount at 1 January 2016	**54**	**5 267**	**425**
Provision for impairment at 1 January 2016	**-**	**(1 765)**	**(60)**
Additions	1 450	256	56
Disposals	(60)	(290)	(163)
Transferred from Inventories category to Non-current assets held for sale	-	(940)	940
Reclassification of carrying amount less provision in 2016. including:	2 356	(2 356)	-
carrying amount	*2 356*	*(4 064)*	-
provision for impairment	-	*1 708*	-
Revaluation subject to market changes	25	-	-
Carrying amount at 31 December 2016	**3 825**	**172**	**1 198**
Provision for impairment at 31 December 2016	**-**	**(15)**	**(46)**
Carrying amount less provision for impairment at 31 December 2016	**3 825**	**157**	**1 152**

14 Other Assets

(in millions of Russian roubles)	31 December 2016	31 December 2015
Non-current assets held for sale	1 198	425
Prepayments	395	282
Inventories	172	5 267
Current income tax prepayment	4	288
Other	109	399
Total other assets before provision for impairment of other assets	**1 878**	**6 661**
Less provision for impairment of other assets	(61)	(1 825)
Total other assets	**1 817**	**4 836**

Movements of non-core assets during 2016 are disclosed in Note 13.

Inventories (IAS 2) and Non-current assets held for sale (IFRS 5) represent real estate and equipment repossessed by the Group in settlements of overdue loans and other Bank's assets.

	31 December 2016		**31 December 2015**	
(in millions of Russian roubles)	**Inventories**	**Non-current assets held for sale**	**Inventories**	**Non-current assets held for sale**
Inventory	87	-	111	-
Equipment	85	3	21	3
Non-residential premises	-	1 054	2 798	281
Residential premises	-	135	549	126
Transport	-	6	-	15
Land plots	-	-	1 788	-
Total inventories and Non-current assets held for sale before provision for impairment	**172**	**1 198**	**5 267**	**425**
Less provision for impairment	**(15)**	**(46)**	**(1 765)**	**(60)**
Total inventories and Non-current assets held for sale	**157**	**1 152**	**3 502**	**365**

The Group is actively marketing Non-core assets held for sale and expects to complete the sale within the year after their recording in this category.

14 Other Assets (Continued)

Under IFRS 5, the portfolio of assets held for sale consists of real estate, motor vehicles and equipment repossessed by the Group in settlements of overdue loans. Tangible assets repossessed by the Group in settlement of overdue loans did not require the use of cash and cash equivalents and therefore were not included in the consolidated statement of cash flows.

Movements in the provision for impairment of other assets during 2016 are as follows:

(in millions of Russian roubles)	**Inventories**	**Non-current assets held for sale**	**Total**
Provision for impairment at 1 January 2016	**1 765**	**60**	**1 825**
Adjustment for market changes	28	4	32
Disposals	(70)	(18)	(88)
Written-off provisions as a result of reclassifications	(1 708)	-	(1 708)
Provision for impairment at 31 December 2016	**15**	**46**	**61**

Movements in the provision for impairment of other assets during 2015 are as follows:

(in millions of Russian roubles)	**Inventories**	**Non-current assets held for sale**	**Total**
Provision for impairment at 1 January 2015	**1 000**	**110**	**1 110**
Adjustment for market changes	1 029	(6)	1 023
Disposals	(212)	(96)	(308)
Transferred to non-current assets held for sale	(52)	52	-
Provision for impairment at 31 December 2015	**1 765**	**60**	**1 825**

15 Premises and Equipment and Intangible Assets

(in millions of Russian roubles)	Note	Premises and land	Office and banking equip-ment	Compu-ters	Motor vehicles	Intangible assets	Other	Total Premises, equipment and intangible assets
Carrying amount at 1 January 2015		**1 968**	**286**	**280**	**185**	**-**	**491**	**3 210**
Cost at 1 January 2015								
Balance at the beginning of the year		2 513	1 280	1 166	566	-	1 128	6 653
Additions		37	61	171	54	-	24	347
Disposals		(18)	(60)	(239)	(57)	-	(73)	(447)
Cost at the end of the year		**2 532**	**1 281**	**1 098**	**563**	**-**	**1 079**	**6 553**
Accumulated depreciation								
Balance at the beginning of the year		545	994	886	381	-	637	3 443
Depreciation charge	24	56	74	103	69	-	54	356
Disposals		-	(57)	(238)	(57)	-	(35)	(387)
Balance at the end of the year		**601**	**1 011**	**751**	**393**	**-**	**656**	**3 412**
Carrying amount at 31 December 2015		**1 931**	**270**	**347**	**170**	**-**	**423**	**3 141**
Revaluation at 31 December 2015		**2 176**	**-**	**-**	**-**	**-**	**-**	**2 176**
Cost at 31 December 2015								
Balance at the beginning of the year		4 123	1 281	1 098	563	-	1 079	8 144
Additions		1	33	14	35	133	6	222
Transfers		137	-	-	-	-	(137)	-
Disposals		(89)	(98)	(54)	(165)	-	(34)	(440)
Accumulated depreciation charged on revalued assets		(120)	-	-	-	-	-	(120)
Revaluation recognised in other comprehensive income		128	-	-	-	-	-	128
Revaluation recognised in the statement of profit or loss and other comprehensive income		73	-	-	-	-	-	73
Cost at the end of the reporting period		**4 253**	**1 216**	**1 058**	**433**	**133**	**914**	**8 007**
Accumulated depreciation								
Balance at the beginning of the year		16	1 011	751	393	-	656	2 827
Depreciation charge	24	106	71	106	53	40	38	414
Disposals		(2)	(96)	(54)	(134)	-	(21)	(307)
Accumulated depreciation charged on revalued assets		(120)	-	-	-	-	-	(120)
Balance at the end of the reporting period		**-**	**986**	**803**	**312**	**40**	**673**	**2 814**
Carrying amount at 31 December 2016		**4 253**	**230**	**255**	**121**	**93**	**241**	**5 193**

At 31 December 2016, the carrying value of the mortgage loans (less impairment provision) was RR 5 193 million (2015: RR 5 317 million). Starting from 2015, the Bank applies the method of carrying premises and equipment in part of operational real estate (premises and land plots) at their revalued cost.

16 Due to Other Banks

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Deposits of other banks	4 140	7 230
Correspondent accounts of other banks	10	269
Cash received under sale and repurchase agreements with the Bank of Russia	-	9 503
Deposits of the Bank of Russia	-	2 809
Total due to other banks	**4 150**	**19 811**

At 31 December 2016 the total amount of five major aggregated balances of amounts due to other banks was RR 4 005 million or 96.5% (2015: RR 19 534 million or 98.6%) of the total amount of due to other banks.

At 31 December 2016 placements of other banks include a deposit attracted under the programme on providing state support to SME from AO MSP Bank of RR 3 382 million at a rate from 6.2% p.a. to 10.3% p.a. with maturity from September 2017 to April 2023 (2015: RR 3 769 million at a rate from 6.4% p.a. to 10.3% p.a. with maturity from December 2016 to November 2022). The rights of claim for the loans with a carrying value of RR 3 294 million (2015: RR 3 585 million) were pledged as collateral for the Group's obligations to the creditor. Refer to Notes 10 and 32.

In 2015, the Group repaid deposits amounting to RR 379 million attracted under the program of the European Bank for Reconstruction and Development for lending to small and medium businesses. The repayment of deposits was recorded within cash flows from financial activities in the consolidated statement of cash flows for 2016.

Refer to Notes 8, 11 and 32 for the debt securities transferred under sale and repurchase agreement with the Bank of Russia.

Geographical, currency, interest rate and maturity analyses of amounts due to other banks are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of amounts due to other banks.

17 Customer Accounts

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Current accounts and demand deposits		
Corporate clients	35 782	26 078
Individuals	17 472	18 270
Total current accounts and demand deposits	**53 254**	**44 348**
Term deposits		
Corporate clients	27 448	16 343
Individuals	120 244	108 967
Total term deposits	**147 692**	**125 310**
Total customer accounts	**200 946**	**169 658**

17 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

(in millions of Russian roubles)	31 December 2016 Amount	%	31 December 2015 Amount	%
Individuals	137 716	69	127 237	75
Manufacturing	13 033	6	7 285	5
Finance	12 847	6	5 267	3
Trade and services	10 103	5	15 443	9
Construction	7 387	4	4 676	3
Transport and telecommunications	5 446	3	4 020	2
Real estate	1 866	1	2 540	1
Agriculture	1 561	1	1 584	1
State and municipal organisations	240	-	239	-
Other	10 747	5	1 367	1
Total customer accounts	**200 946**	**100**	**169 658**	**100**

Concentration of current accounts and deposits from customers

At 31 December 2016 the Group had 20 largest customers with the aggregate balance of RR 23 341 million or 12% of total customer accounts.

At 31 December 2015 the Group had 20 largest customers with the aggregate balance of RR 13 921 million or 8% of total customer accounts.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of customer accounts.

18 Debt Securities in Issue

(in millions of Russian roubles)	31 December 2016	31 December 2015
Mortgage backed bonds. including issued:	3 402	5 869
in June 2015	1 968	2 581
in March 2014	1 434	1 894
in April 2013	-	1 071
in December 2011	-	323
Promissory notes	1 568	1 427
Deposit certificates	31	137
Total debt securities in issue	**5 001**	**7 433**

As at 31 December 2016, mortgage backed bonds have Baa3 rating on Moody's rating scale.

In the fourth quarter of 2016, the structured entities ZAO IAV 1 and ZAO IAV 2 repaid class A and class B mortgage-backed bonds before the due date.

At 31 December 2016, promissory notes in issue had maturity dates from January 2017 to March 2019 (2015: from January 2016 to October 2018) and effective interest rates from 6.0% to 12.0% p.a. (2015: from 0.0% to 16.5% p.a.).

(in millions of Russian roubles)

18 Debt Securities in Issue (Continued)

Terms of issue of mortgage backed bonds under securitisation transactions are as follows:

Issue date	Maturity date	Amount of issue RR million	Class A notes RR million	Class B notes RR million	Coupon rate %	Rating on Moody's scale at the issue date
June 2015	27 January 2048	3 450	3 000	450	9.00%	Baa3
March 2014	26 October 2046	3 450	3 000	450	9.00%	Baa2
April 2013	25 August 2045	4 000	2 960	1 040	8.50%	Baa3
December 2011	10 August 2044	4 071	2 931	1 140	8.95%	Baa2

Class A notes were placed through open subscription on the MICEX and class B notes were bought out by the Group and. Therefore, were not shown in these consolidated financial statements. Under the terms of issue of bonds, any funds received from early repayment of mortgage loans are to be used to repay the balance of nominal value of Class A notes.

The terms of issue of bonds assume discharge of obligations on class B notes only when obligations on class A notes are discharged.

19 Subordinated Loans

Subordinated loans represent long-term deposits of the Group's customers. The subordinated debt ranks after all other creditors in case of the Group's liquidation. The details of subordinated loans attracted by the Group are presented below:

No.	Start date	Maturity	Currency	31 December 2016		31 December 2015	
				Contrac-tual interest rate. %	Value, RR million	Contrac-tual interest rate. %	Value, RR million RR
1	August 2010	August 2018	USD	8.00	182	8.00	219
2	July 2012	July 2020	RR	9.25	1 000	9.25	1 000
3	December 2012	July 2020	RR	9.25	1 000	9.25	1 000
4	February 2013	July 2020	RR	9.25	1 000	9.25	1 000
5	January 2014	January 2022	USD	8.50	426	8.50	511
Total subordinated loans					**3 608**		**3 730**

Geographical, currency, interest rate and maturity analyses of subordinated loans are disclosed in Note 29.

Refer to Note 34 for the estimated fair of subordinated loans.

20 Other Financial Liabilities

(in millions of Russian roubles)	31 December 2016	31 December 2015
Payables	471	382
Banking cards payables	75	71
Settlements on conversion operations	11	1
Other liabilities	20	37
Total other financial liabilities	**577**	**491**

Geographical, currency, interest rate and maturity analyses of other financial liabilities are disclosed in Note 29.

Refer to Note 34 for the estimated fair value of each class of other financial liabilities.

21 Share Capital and Retained Earnings

(in millions of Russian roubles)	Number of outstanding shares (pcs)	Ordinary shares	Preference shares with a determined dividend amount	Share premium	Total
At 1 January 2015	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2015	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2016	**25 043 199**	**237**	**13**	**7 306**	**7 556**

The registered amount of the Bank's share capital at 31 December 2016 is RR 250 million (2015: RR 250 million). At 31 December 2016 and 31 December 2015, all of the Bank's outstanding shares were paid in.

The total amount of the authorised ordinary shares is 23 748 694 shares (2015: 23 748 694 shares). All ordinary shares have a nominal value of RR 10 per share (2015: RR 10 per share). Each share carries one vote.

The total amount of the authorised preference shares is 1 294 505 shares (2015: 1 294 505 shares). All issued preference shares are fully paid. The preference shares have a nominal value of RR 10 (2015: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation.

The preference shares give the holders the right to participate in general shareholders' meetings with the voting right in instances where decisions are made in relation to reorganisation and liquidation of the Bank, where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed, in relation to application on delisting of preference shares, addressing the Bank of Russia with an application to relieve the Bank of the duty of disclosing or providing information stipulated by the securities' legislation of the Russian Federation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. of nominal value (2015: 20% p.a. of nominal value) and rank above ordinary dividends. Dividends on preference share are not cumulative. Preference shareholders have the right to participate in general shareholders' meetings with voting rights on all matters within its competence, starting from the meeting following the meeting where (irrespective of the reasons) a decision on dividend payment was not taken at all or a decision on partial payment of dividends on preference shares was taken. The right of preference shareholders to participate in general shareholders' meetings is terminated from the moment of the first full payment of dividends on the preference shares.

21 Share Capital and Retained Earnings (Continued)

In 2016, the general shareholders' meeting took a resolution not to pay dividends on the Bank's shares.

The Bank's ordinary shares were included into the quotation list of the first level of Closed Joint Stock Company MICEX Stock Exchange.

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

At 31 December 2015, 51 370 (2015: 370 553) ordinary shares of the Bank were circulating on international markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with a nominal value of RR 10.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with the Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2016 amount to RR 11 386 million (2015: RR 10 500 million).

22 Interest Income and Expense

(in millions of Russian roubles)	**2016**	**2015**
Interest income		
Loans and advances to customers - legal entities	13 864	14 666
Loans and advances to customers - individuals	9 020	7 583
Investment securities available for sale	929	791
Correspondent accounts and due from other banks	483	334
Trading securities	150	361
Total interest income	**24 446**	**23 735**
Interest expense		
Term deposits of individuals	10 122	9 698
Term deposits of legal entities	1 953	1 982
Correspondent accounts and due from other banks	796	785
Debt securities in issue	550	763
Subordinated loans	340	338
Current accounts and demand deposits	303	109
Total interest expense	**14 064**	**13 675**
Net interest income	**10 382**	**10 060**

23 Fee and Commission Income and Expense

(in millions of Russian roubles)	**2016**	**2015**
Fee and commission income		
Settlement transactions	1 805	1 200
Bank cards settlements	1 393	1 399
Cash transactions	807	824
Guarantees issued	432	341
Cash collection	210	211
Payroll projects	167	232
Other	346	364
Total fee and commission income	**5 160**	**4 571**
Fee and commission expense		
Bank cards settlements	574	597
Settlement transactions	111	85
Fee for attracted funds	66	13
Settlements with currency and stock exchanges	36	37
Cash collection and cash transactions	9	16
Other	40	17
Total fee and commission expense	**836**	**765**
Net fee and commission income	**4 324**	**3 806**

24 Administrative and Other Operating Expenses

(in millions of Russian roubles)	**2016**	**2015**
Staff costs	5 161	5 183
Contributions to the State Deposit Insurance Agency	585	489
Information and telecommunication services	676	719
Depreciation and amortisation	414	356
Taxes other than on income	296	333
Rent expenses	293	350
Premises maintenance expenses	277	427
Security	272	305
Advertising and marketing services	109	122
Charity and sponsorship	88	5
Insurance	53	54
Other	637	803
Total general and administrative expenses	**8 845**	**9 146**

Included in staff costs for the year ended 31 December 2016 are statutory contributions to pension funds of RR 731 million (2015: RR 739 million).

Information on related party balances is disclosed in Note 36.

25 Income Taxes

(a) Components of income tax (benefit)/expense

Income tax expense comprises the following:

(in millions of Russian roubles)	**2016**	**2015**
Current income tax expense	55	65
Deferred tax	500	(1 019)
Income tax expense/(benefit) for the year	**555**	**(954)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's income is 20% (2015: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

(in millions of Russian roubles)	**2016**	**2015**
IFRS profit/(loss) before tax	**2 670**	**(4 729)**
Theoretical tax charge at statutory rate (2015 – 2016: 20%)	534	(946)
Tax effect of income or expense items which are not deductible or assessable for taxation purposes:		
- Income on government securities taxed at different rates	(19)	(23)
- Non-deductible expenses	40	15
Income tax expense/(benefit) for the year	**555**	**(954)**

25 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

Deferred taxes analysed by type of temporary difference are detailed below:

	Assets		Liabilities		Net position	
(in millions of Russian roubles)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Trading securities	17	-	-	(160)	17	(160)
Investment securities available for sale	199	-	-	(296)	199	(296)
Loans and advances to customers	934	1 056	-	-	934	1 056
Premises and equipment	-	-	(494)	(478)	(494)	(478)
Inventories	3	353	-	-	3	353
Investment property	338	2	-	-	338	2
Non-current assets held for sale	9	12	-	-	9	12
Unrecognised tax loss carried forward	347	916	-	-	347	916
Other assets	48	17	-	-	48	17
Other liabilities	148	91	(399)	-	(251)	91
Consolidation	-	-	(14)	(31)	(14)	(31)
Net deferred tax asset/(liability)	**2 043**	**2 447**	**(907)**	**(965)**	**1 136**	**1 482**

Movements in deferred tax during the year ended 31 December 2016 are presented below:

(in millions of Russian roubles)	**Balance at 1 January 2016**	**Charged to profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December 2016**
Trading securities	(160)	177	-	17
Investment securities available for sale	(296)	328	167	199
Loans and advances to customers	1 056	(122)	-	934
Premises and equipment	(478)	(3)	(13)	(494)
Inventories	353	(350)	-	3
Investment property	2	336	-	338
Non-current assets held for sale	12	(3)	-	9
Unrecognised tax loss carried forward	916	(569)	-	347
Other assets	17	31	-	48
Other liabilities	91	(342)	-	(251)
Consolidation	(31)	17	-	(14)
Net deferred tax asset/(liability)	**1 482**	**(500)**	**154**	**1 136**

The net deferred tax asset represents income taxes recoverable through future income. The assessment of recoverability of the deferred tax asset is performed by the management of the Group and is based on a medium term business plan.

25 Income Taxes (Continued)

(d) Deferred tax effects relating to each component of other comprehensive income

Deferred tax effects relating to each component of other comprehensive income are as follows:

	2016			2015		
(in millions of Russian roubles)	Before-tax amount	Deferred tax	Net-of-tax amount	Before-tax amount	Deferred tax	Net-of-tax amount
Investment securities available for sale:						
- (losses)/gains arising during the year	(783)	167	(616)	411	(101)	310
Premises and equipment:						
- gains/(losses) arising during the year	64	(13)	51	2 358	(472)	1 886
Other comprehensive (loss)/income:	**(719)**	**154**	**(565)**	**2 769**	**(573)**	**2 196**

26 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares.

(in millions of Russian roubles)	Note	2016	2015
Profit/(loss) for the year		2 115	(3 775)
Less dividends on preference shares	27	-	(3)
Undistributed profit/(loss) for the year		**2 115**	**(3 778)**
Profit/(loss) attributable to the Bank's ordinary shareholders		2 006	(3 583)
Profit/(loss) for the year attributable to the Bank's preference shareholders		109	(195)
Weighted average number of ordinary shares in issue (millions)		23.7487	23.7487
Weighted average number of preference shares in issue (millions)		1.2945	1.2945
Basic and diluted earnings/(loss) per ordinary share (expressed in RR per share)		**84**	**(151)**

27 Dividends

	2016		2015	
(in millions of Russian roubles)	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	-	-	11	3
Dividends paid during the year	-	-	(11)	(3)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (in RR per share)	**-**	**-**	**0.5**	**2.0**

In 2016, the general shareholders' meeting took a resolution not to pay dividends on the Bank's shares. In 2015 dividends were declared and paid in Russian Roubles.

28 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

For the purpose of management, the Group's operations are split by types of products and services and by classes of clients acquiring them, into the following operating segments:

- Corporate business – representing services to corporate clients and SME on settlement and cash services of settlement and current accounts of organisations, collection services, attraction of deposits of legal entities, issue of bills and deposit certificates, carrying out of factoring operations, lending, guarantees, overdrafts, credit lines and other types of financing, operation with foreign currency and derivative financial instruments.
- Retail business includes provision of banking services to individuals and bank card-based services. Services to individuals include opening and maintaining settlement accounts, settlement and cash services, deposits and loans to individuals, foreign exchange transactions and custody services. Bank card-based services include remote bank services for bank cards holders, settlement and cash services with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll project services, acquiring, self-service operations at ATMs, information service to bank cards holders.
- Financial business represents interbank and financial markets transactions, including securities transactions.
- Liquidity includes reallocation of funds between operating segments.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic lines of business that focus on different categories of customers. For the purposes of these consolidated financial statements each operating segment of the Bank is presented as a reportable segment. The "other" category includes unallocated items.

28 Segment Analysis (Continued)

(c) Measurement of operating segment profit or loss, assets and liabilities

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are based on market indicators.

Segment assets and liabilities include operating assets and liabilities representing a major part of the Bank's assets and liabilities, as well as funds reallocated between operating segments, but excluding taxation. Internal accruals and transfer pricing adjustments have been considered in calculating performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

The CODM reviews financial information prepared in accordance with the requirements of Russian law. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available-for-sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(ii) funds are generally reallocated between segments at internal interest rates set by the Treasury department, which are determined by reference to market interest rate benchmarks. contractual maturities for loans and observed actual maturities of customer accounts balances;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on the regulations of the Bank of Russia. rather than based on the incurred loss model prescribed in IAS 39;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method.

The CODM evaluates performance of each segment based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

The Bank does not disclose geographical information in its segment analysis as the majority of transactions and revenues of the reportable segments are concentrated in Russia. The analysis of the reportable segments is based on differences in banking products and services rather than on the geographical factors.

28 Segment Analysis (Continued)

Segment information about reportable segment assets and liabilities for the year ended 31 December 2016 is set out below:

(in millions of Russian roubles)	Corporate business	Retail business	Financial business	Other	Total
Cash and cash equivalents	-	2 611	17 571	6 515	26 697
Mandatory cash balances with the Bank of Russia	-	-	-	1 583	1 583
Trading securities	-	-	1 669	-	1 669
Due from other banks	114	713	2 825	-	3 652
Loans and advances to customers	112 857	62 221	-	-	175 078
Investment securities available for sale	373	-	16 408	12	16 793
Other financial assets	-	351	-	1 099	1 450
Other assets	3 885	265	-	340	4 490
Non-current assets held for sale	-	-	-	1 152	1 152
Premises. equipment and intangible assets	-	-	-	5 193	5 193
Deferred income tax asset	-	-	-	1 136	1 136
Total reportable segment assets	**117 229**	**66 161**	**38 473**	**17 030**	**238 893**
Due to other banks	3 385	-	765	-	4 150
Customer accounts	63 230	137 716	-	-	200 946
Debt securities in issue	1 599	3 402	-	-	5 001
Other financial liabilities	1	-	-	576	577
Other liabilities	206	462	6	176	850
Subordinated loans	3 608	-	-	-	3 608
Total reportable segment liabilities	**72 029**	**141 580**	**771**	**752**	**215 132**

28 Segment Analysis (Continued)

Segment information about reportable segment assets and liabilities for the year ended 31 December 2015 is set out below:

(in millions of Russian roubles)	**Corporate business**	**Retail business**	**Financial business**	**Other**	**Total**
Cash and cash equivalents	-	3 782	20 875	6 606	31 263
Mandatory cash balances with the Bank of Russia	-	-	-	1 122	1 122
Trading securities	-	-	5 349	-	5 349
Due from other banks	205	1 199	2 004	-	3 408
Loans and advances to customers	106 290	51 164	-	-	157 454
Investment securities available for sale	1 180	-	10 597	12	11 789
Other financial assets	-	320	729	765	1 814
Other assets	2 857	320	-	1 348	4 525
Non-current assets held for sale	-	-	-	365	365
Premises, equipment and intangible assets	-	-	-	5 317	5 317
Deferred income tax asset	-	-	-	1 482	1 482
Total reportable segment assets	**110 532**	**58 785**	**39 554**	**17 017**	**223 888**
Due to other banks	3 821	-	15 990	-	19 811
Customer accounts	42 421	127 237	-	-	169 658
Debt securities in issue	1 564	5 869	-	-	7 433
Other financial liabilities	-	-	-	491	491
Other liabilities	165	67	-	322	554
Subordinated loans	3 730	-	-	-	3 730
Total reportable segment liabilities	**51 701**	**133 173**	**15 990**	**813**	**201 677**

28 Segment Analysis (Continued)

The table below represents information on income and expenses per reportable segment for the reporting period ended 31 December 2016. The Bank's management considers operating income before provision for loan impairment as a key measure of reportable segments performance.

(in millions of Russian roubles)	Corporate business	Retail business	Financial business	Liquidity	Other	Total
2016						
Interest income	13 881	9 095	1 470	-	-	24 446
Non-interest income	3 318	2 315	189	-	690	6 512
Intersegment revenues	5 130	13 063	278	1 538	119	20 128
Operating revenues subject to transfers	**22 329**	**24 473**	**1 937**	**1 538**	**809**	**51 086**
Interest expense	(3 018)	(10 568)	(233)	-	(245)	(14 064)
Non-interest expense	(98)	(617)	(29)	-	(92)	(836)
Losses on initial recognition of assets at rates below market	(516)	-	-	-	-	(516)
Intersegment expenses	(12 817)	(6 288)	(923)	-	(100)	(20 128)
Total expenses	**(16 449)**	**(17 473)**	**(1 185)**	**-**	**(437)**	**(35 544)**
Operating income	**5 880**	**7 000**	**752**	**1 538**	**372**	**15 542**
Administrative and other expenses	(3 322)	(4 365)	(136)	-	(609)	(8 431)
Depreciation of premises and equipment	(189)	(216)	(7)	-	(2)	(414)
Provision for loan impairment	(3 725)	(379)	-	-	-	(4 104)
Provision for impairment of other assets	4	-	-	-	73	77
(Loss)/profit before tax (segment result)	**(1 352)**	**2 040**	**609**	**1 538**	**(166)**	**2 670**

Non-interest income includes fee and commission income, gains less losses from trading in foreign currencies, from foreign exchange translation and other operating income.

Non-interest expenses include fee and commission expenses, losses less gains from trading in foreign currencies, from foreign exchange translation.

28 Segment Analysis (Continued)

Segment information for the Bank's major reportable segments for the year ended 31 December 2015 is set out below:

(in millions of Russian roubles)	**Corporate business**	**Retail business**	**Financial business**	**Liquidity**	**Other**	**Total**
2015						
Interest income	14 635	7 597	1 503	-	-	23 735
Non-interest income	2 936	2 492	303	-	(2)	5 729
Intersegment revenues	4 306	12 959	404	601	116	18 386
Operating revenues subject to transfers	**21 877**	**23 048**	**2 210**	**601**	**114**	**47 850**
Interest expense	(2 977)	(10 250)	(435)	-	(13)	(13 675)
Non-interest expense	(59)	(630)	(31)	-	(45)	(765)
Intersegment expenses	(12 583)	(4 921)	(782)	-	(100)	(18 286)
Total expenses	**(15 619)**	**(15 801)**	**(1 248)**	**-**	**(158)**	**(32 826)**
Operating income/(expenses)	**6 258**	**7 247**	**962**	**601**	**(44)**	**15 024**
Administrative and other expenses	(3 690)	(4 470)	(135)	-	(495)	(8 790)
Depreciation of premises and equipment	(162)	(185)	(7)	-	(2)	(356)
Provision for loan impairment	(8 696)	(755)	-	-	-	(9 451)
Provision for impairment of other assets	(974)	-	-	-	(182)	(1 156)
(Loss)/profit before tax (segment result)	**(7 264)**	**1 837**	**820**	**601**	**(723)**	**(4 729)**

29 Financial Risk Management

The operations of Group members are affected by a wide range of risks, among which, due to the nature of the Group's business, the most significant are: credit risk, market risk (including equity. currency. interest rate and other price risks), liquidity risk, operational risk.

Key planned measures of risk mitigation policy are established within the scope of the Bank's strategy, which complies with its strategic goals and is aimed at further improvement of risk management system in accordance with the business objectives, the number and the size of accepted risks and the optimal balance between profitability and risk level.

The Bank's risk management system ensures timely risk identification, analysis, measurement and assessment of risk position, as well as application of various risk management methods (prevention, mitigation, distribution and absorption). Risk assessment and management procedures are integrated into current operations.

The purpose, objectives and principles of the risk assessment and management system are stipulated in the Bank's Strategy on Risk and Capital Management approved by the Board of Directors of the Bank.

The Risks Department is in charge of managing and controlling financial and other risks.

The main objectives of the Risks Department are:

- to organise risk management, develop and implement rules and policies on risk management. risk identification and assessment methods;
- to take measures, including coordination of the Departments' activities. aimed at reducing the risks' impact;
- to introduce and ensure continuous control of the restrictions limiting the risks' impact;
- to develop the stress testing methodology;
- to prepare risk reports, including integral reports (covering all risks), and present them to the Bank's management as part of internal capital adequacy assessment process (ICAAP).

Independent assessment of completeness and efficiency of the procedures for management of banking risks is performed by the Internal Audit Function and the Compliance Department in the course of internal audits.

Risk management system of the Group's structured entities corresponds to the nature and scope of their operations and allows to identify, prevent and limit the risks significant for the Group.

Each Group member operates in accordance with its charter, established internal procedures for transaction (deal) approval and execution, as well as for compliance of the necessary procedures of control over the accepted risks by the management and control bodies. Additional control over the operation of the Group members is organised at the level of the Group's head credit unit.

All material terms and conditions of the transactions (deals) intended for execution by mortgage agents and contracts intended for conclusion are agreed in advance with the Group's head credit unit. All decisions about allocation and spending of the funds required for those business activities are taken upon approval by the Inspector - Head of the Internal Audit Function of the Group's head credit unit.

The level of operational risk of the Group's structured entities was significantly reduced at the stage of their establishment by:

- detailed development of the securitisation scheme and contractual base with involvement of international consulting entities having significant experience in such transactions;
- proper segregation of rights and obligations between the participants of securitisation transactions (service agent, back-up servicer, management company. the bank where the account for payment collection is kept, settlement agent. the bank where the issuer account and the account for mortgage coverage are kept).

29 Financial Risk Management (Continued)

Credit risk. The Group takes exposure to credit risk, which is defined by the Group as the risk of losses as a result of the default, untimely or partial discharge of obligations by borrower under the contract terms.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The credit policy constitutes a basis of the credit risk management system.

The key elements of the credit risk management system include the following:

A. IT system

As part of the credit risk management framework, the existing IT system allows for:

- the quality processing of source information about clients. assessing their credit standing at the time of considering loan applications;
- performing analysis in the period of credit risk monitoring and at the stage of the credit product repayment;
- managing non-performing loans;
- drafting and providing management with analytical reports on the credit risk levels at any level of complexity that contain accurate and objective information for management decision making purposes.

The lending process is based on three main sources of client information: internal database, information provided by the client, external databases (credit history bureaus. information and analytical systems, Internet resources, etc.).

The retail banking function uses CRM Dynamics system and Deductor decision-making support module which ensure achieving a high level of process automation and improving operating efficiency and quality of decisions made.

B. Limits compliance

The Bank uses a system of limits to implement its credit policy.

Limits mean restrictions in providing credit products / setting guarantee limits. in accordance with the Bank’s internal regulations.

The system of limits is determined by the following factors:

- the Bank of Russia's regulatory requirements;
- corporate and retail lending strategy;
- limitations on high-risk transactions;
- diversification of risks taken.

Additionally to general limits, the Bank sets certain qualitative and quantitative indices representing the segment, industry and regional structure of the corporate loan portfolio and the structure of the loan portfolio in terms of currency and maturity.

29 Financial Risk Management (Continued)

General limits restrictions aimed at reducing concentration risk and related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are annually approved by the Management Board of the Bank in accordance with its credit policy:

- the maximum loan amount to one borrower;
- the level of loan portfolio concentration (the ratio of loans issued to 20 largest borrowers to equity of the Group);
- the maximum aggregate amount of guarantees or uncovered letters of credit issued by the Bank;
- the maximum amount of all large loans;
- the maximum aggregate amount of loans and guarantees issued to the shareholders;
- the aggregate amount of risk related to insiders.

To mitigate its exposure to credit risk, the Bank has developed an accreditation arrangement for construction companies that enables it to set and manage limits on mortgage loans to individuals for acquisition of apartments in one residential property.

C. Credit risks identification and assessment

The Bank has developed internal techniques that enable identification and assessment of the credit risk level for all client categories.

Assessment of an individual credit standing of legal entities and individuals is based on a comprehensive analysis of a client using internal and external data sources. The credit standing assessment checks:

- For corporate clients and their beneficial owners: financial position, business reputation, quality of management, cash flows, quality of collateral;
- For retail clients: background information about a client (passport data. criminal or administrative liability checks. etc.), credit history, solvency, quality of collateral.

When considering loan applications from legal entities and individuals and supporting lending transactions, the formalised procedures are required to be used for identification of groups of related borrowers and assessment of the aggregate credit risk for the groups identified.

To enhance control and monitor the credit risk level for large borrowers, the Bank has a Large Corporate Risks Division.

Products exposed to credit risk are provided if there is a liquid collateral that secures repayment of the loan by a borrower, payment of interest, commission fees and expenses (except for certain types of credit products).

There are procedures in place for calculating collateral discounts, appraising collateral, insuring collateral and/or a borrower (including through engagement of appraisers and insurers who meet the Bank's criteria), as well as the procedure and regularity of checking collateral for adequacy and liquidity.

The centralised appraisal of property expected to be pledged against large loans and the monitoring of assets already pledged against large loans are performed centrally by a specialised department of the Bank – the Collateral Management Department.

29 Financial Risk Management (Continued)

D. Lending transaction authorisation

Pursuant to the risk and capital management strategy and credit policy, the authorities, certain types of and limits on lending transactions are regularly delegated to the Management Board by decision of the Board of Directors. Further redistribution of authorities and limits between the collegial bodies is performed by decision of the Management Board and is subject to quarterly revisions.

Within the credit risk management framework there is a multilevel system of authorities that enables independent decision-making on providing credit products and is divided into:

- authorities of the Bank's Management Board;
- authorities of the Credit and Investment Committee of the Bank, which comprise the authorities of:
  - the Credit Committee;
  - the Committee for Small and Medium Businesses;
  - the Sub-Committee of the Credit Committee for Retail Lending;
- authorities of the Committee on Overdue Loans and Non-Performing Assets;
- authorities of the heads of the Corporate Lending Department and Credit Risk Department;
- personal authorities on issuing retail loans of the employees of the underwriting function of the Retail Business Department.

If credit products are to be provided outside the scope of authorities of the Management Board and Collegial Bodies of the Bank, such issues are submitted for consideration to the Board of Directors.

E. Credit risk monitoring

To monitor outstanding loans due from the borrowers, multiple monitoring tools have been developed, including:

- regular assessment of the borrower's financial position and economic effectiveness of the arrangements and projects financed;
- identification of the groups of related clients/borrowers;
- compliance with the current limits and the Bank of Russia's requirements for calculation of statutory ratios;
- assessment of liquidity and adequacy of the collateral provided;
- ongoing monitoring of how borrowers meet their obligations and whether the collateral actually exists and is in the right condition;
- assessment of the quality category of credit products provided;
- assessment of whether provisions made for potential loan losses and other credit-related commitments are adequate;
- a procedure for identification and control over the authorities of Collegial Bodies to provide credit products;
- mandatory regular client checks by the Economic Security Service.

The monitoring procedures are performed by Risk Management Department. Credit Risk Department and Economic Security Service using internal and external data sources and automatic controls.

The Early Warning System is used to ensure efficient credit risk monitoring for corporate borrowers. In the automatic mode, the system enables detecting signs of deterioration in the corporate borrowers' financial performance at an early stage and taking preventive steps to minimise exposure to credit risk before the related loans become non-performing.

29 Financial Risk Management (Continued)

Risk Mitigation Policy

The risk management system uses standard risk mitigation tools for each type of risk: insurance, provisioning, distribution (including risk premium in the product's price), diversification and risk control, When an unfavourable risk event materialises, steps are taken to establish the reasons of the occurrence and to design measures aimed at preventing similar events in future.

The key risk mitigation methods are as follows:

- clear documentation of rules and procedures for executing banking and other transactions;
- implementation of the principles of segregation of duties and restriction of personnel functions. authorities and responsibilities;
- taking collegial decisions. setting risk limits for individual transactions;
- implementing internal controls over business processes and compliance with statutory and internal regulatory requirements;
- ensuring physical and information security;
- ensuring required personnel qualification level and staff training;
- automation of bank processes and technologies, organisation of effective monitoring of IT-systems performance.

Market risk. Market risk is defined by the Group as the risk of losses resulting from unfavourable movements in the market value of financial instruments of trade portfolio and derivative financial instruments of the credit organisation and also of foreign currency exchange rates and (or) precious metals. Market risk includes equity, currency and interest rate risks.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. The market risk management system includes setting limits on the level of accepted risk and control over their compliance on a daily basis.

Currency risk. The Group is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Group manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits.

29 Financial Risk Management (Continued)

Currency risks are mitigated by maintaining a balance between assets and liabilities in different currencies. The Bank's treasury monitors OPCs on a daily basis and manages the open currency position so as to reduce the currency risk. As principal management tools it uses spot exchange transactions and forward contracts.

The Bank observes a conservative currency policy, trying to limit the accepted currency risk by maintaining open positions at their lowest possible level. The Bank sets limits for cash and term transactions by transaction type and by currency. All currency transactions are performed within the limits set for the counterparties of such transactions.

The Bank performs regular revaluation of its assets and liabilities – a stress test including an estimation of the Bank's hypothetical losses that it could incur in case of dramatic changes in foreign currency rates. Its regularity depends on the rate of market changes and the level of currency risk.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2016:

(in millions of Russian roubles)	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	19 974	4 736	1 955	32	26 697
Mandatory cash balances with the Bank of Russia	1 217	246	119	1	1 583
Trading securities	446	1 223	-	-	1 669
Due from other banks	99	728	2 825	-	3 652
Loans and advances to customers	170 215	3 978	885	-	175 078
Investment securities available for sale	6 878	6 278	3 252	-	16 408
Other financial assets	481	918	51	-	1 450
Total monetary financial assets	**199 310**	**18 107**	**9 087**	**33**	**226 537**
Monetary financial liabilities					
Due to other banks	3 392	-	758	-	4 150
Customer accounts	174 920	17 502	8 483	41	200 946
Debt securities in issue	4 998	3	-	-	5 001
Other financial liabilities	551	14	12	-	577
Subordinated loans	3 000	608	-	-	3 608
Total monetary financial liabilities	**186 861**	**18 127**	**9 253**	**41**	**214 282**
Net balance sheet position	**12 449**	**(20)**	**(166)**	**(8)**	**12 255**
Off-balance sheet commitments					
Financial guarantees	2	-	-	-	2
Other credit related commitments	18 257	8	966	-	19 231
Total off-balance sheet credit related commitments (Note 31)	**18 259**	**8**	**966**	**-**	**19 233**

29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2015:

(in millions of Russian roubles)	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	14 464	11 188	5 556	55	31 263
Mandatory cash balances with the Bank of Russia	841	192	88	1	1 122
Trading securities	445	3 456	1 442	-	5 343
Due from other banks	2 169	1 239	-	-	3 408
Loans and advances to customers	151 481	3 246	2 727	-	157 454
Investment securities available for sale	4 899	2 929	2 769	-	10 597
Other financial assets	1 012	734	68	-	1 814
Total monetary financial assets	**175 311**	**22 984**	**12 650**	**56**	**211 001**
Monetary financial liabilities					
Due to other banks	17 380	-	2 431	-	19 811
Customer accounts	136 747	22 404	10 337	170	169 658
Debt securities in issue	7 433	-	-	-	7 433
Other financial liabilities	480	4	7	-	491
Subordinated loans	3 000	730	-	-	3 730
Total monetary financial liabilities	**165 040**	**23 138**	**12 775**	**170**	**201 123**
Net balance sheet position	**10 271**	**(154)**	**(125)**	**(114)**	**9 878**
Off-balance sheet commitments					
Financial guarantees	331	-	-	-	331
Other credit related commitments	18 683	1 136	25	-	19 844
Total off-balance sheet credit related commitments (Note 31)	**19 014**	**1 136**	**25**	**-**	**20 175**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

At 31 December 2016, if the US Dollar exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, profit before tax for the year would have been RR 4 million lower (RR 4 million higher).

At 31 December 2015, if the US dollar exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, loss before tax for the year would have been RR 31 million higher (RR 31 million lower).

At 31 December 2016, if the Euro exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, profit before tax for the year would have been RR 33 million lower (RR 33 million higher).

At 31 December 2015, if the euro exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, loss before tax for the year would have been RR 25 million higher (RR 25 million lower).

29 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Assessment of the Group's exposure to interest rate risk is managed upon gap analysis of financial instruments sensitive to changes in interest rates (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amounts. These carrying amounts are broken down by the earlier of contractual interest repricing or maturity dates.

Any changes in net interest income resulting from changes in the value of SFI at the date of their redemption or interest repricing determine the amount of interest rate risk exposure. Any changes in the amount of net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the annual reporting period. For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed interval.

The main methods used by the Group to mitigate its interest rate risk is balancing the assets and liabilities in terms of repricing/rescheduling as well as regular (at least quarterly) revision of current interest rates.

The table below summarises the Group's exposure to interest rate risk at 31 December 2016:

(in millions of Russian roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Cash and cash equivalents	10 730	-	-	-	-	15 967	26 697
Mandatory cash balances with the Bank of Russia	-	-	-	-	-	1 583	1 583
Trading securities	1 669	-	-	-	-	-	1 669
Due from other banks	1 002	1 937	-	-	-	713	3 652
Loans and advances to customers	6 665	34 061	32 671	65 350	36 331	-	175 078
Investment securities available for sale	224	4 300	1 307	10 163	414	385	16 793
Other financial assets	-	-	-	-	-	1 450	1 450
Total financial assets	**20 290**	**40 298**	**33 978**	**75 515**	**36 745**	**20 098**	**226 922**
Financial liabilities							
Due to other banks	152	207	588	2 084	1 119	-	4 150
Customer accounts	43 032	59 382	51 093	47 435	4	-	200 946
Debt securities in issue	452	635	610	2 550	-	754	5 001
Other financial liabilities	-	-	-	-	-	577	577
Subordinated loans	-	-	-	3 183	425	-	3 608
Total financial liabilities	**43 636**	**60 224**	**52 291**	**55 252**	**1 548**	**1 331**	**214 282**
Net interest sensitivity gap	**(23 346)**	**(19 926)**	**(18 313)**	**20 261**	**35 197**	**18 767**	**12 640**
Gap coefficient (aggregate relative cumulative gap)	**0.46**	**0.58**	**0.61**	**0.80**	**0.97**		

29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk at 31 December 2015:

(in millions of Russian roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Cash and cash equivalents	15 271	-	-	-	-	15 992	31 263
Mandatory cash balances with the Bank of Russia	-	-	-	-	-	1 122	1 122
Trading securities	5 343	-	-	-	-	6	5 349
Due from other banks	2 169	-	40	-	1 199	-	3 408
Loans and advances to customers	5 129	37 411	40 362	48 593	25 959	-	157 454
Investment securities available for sale	309	1 811	2 366	6 111	-	1 192	11 789
Other financial assets	-	-	-	-	-	1 814	1 814
Total financial assets	**28 221**	**39 222**	**42 768**	**54 704**	**27 158**	**20 126**	**212 199**
Financial liabilities							
Due to other banks	10 073	4 373	844	3 867	654	-	19 811
Customer accounts	61 993	51 257	26 534	29 863	11	-	169 658
Debt securities in issue	630	1 551	1 069	3 980	199	4	7 433
Other financial liabilities	-	-	-	-	-	491	491
Subordinated loans	-	-	-	3 220	510	-	3 730
Total financial liabilities	**72 696**	**57 181**	**28 447**	**40 930**	**1 374**	**495**	**201 123**
Net interest sensitivity gap	**(44 475)**	**(17 959)**	**14 321**	**13 774**	**25 784**	**19 631**	**11 076**
Gap coefficient (aggregate relative cumulative gap)	**0.39**	**0.52**	**0.70**	**0.83**	**1.28**		

At 31 December 2016, if interest rates at that date had been 200 basis points higher (2015: 200 basis points higher), with all other variables held constant, profit before tax for the year 2016 would have been RR 821 million lower (2015: loss before tax for the year would have been RR 1 035 million higher) as a result of higher interest expense on term deposits of individuals and legal entities.

At 31 December 2016, other components of equity would have been RR 72 million (2015: RR 43 million) higher, mainly as a result of an increase in the fair value of fixed rate financial instruments classified as available for sale.

At 31 December 2016, if interest rates at that date had been 200 basis points lower (2015: 200 basis points lower), with all other variables held constant, profit before tax for the year 2016 would have been RR 821 million higher (2015: loss before tax for the year would have been RR 1 035 million lower) as a result of lower interest expense on term deposits of individuals and legal entities.

At 31 December 2016, other components of equity would have been RR 72 million (2015: RR 43 million lower), mainly as a result of a decrease in the fair value of fixed rate financial instruments classified as available for sale.

Risk management comprises minimising net gap established in analysis of assets and liabilities sensitive to interest rate changes. Depending upon the net gap amount the Group takes the decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of changes in the market interest rate.

(in millions of Russian roubles)

29 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on effective interest rates at the end of the reporting period used for amortisation of the respective assets/liabilities. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date.

	31 December 2016		31 December 2015	
In % p.a.	Carrying amount	Average effective interest rate	Carrying amount	Average effective interest rate
Interest-bearing assets				
Cash and cash equivalents				
- in Russian roubles	5 315	10%	886	0%
- in other currencies	5 415	2%	14 385	0%
Trading securities				
- in Russian roubles	446	10%	445	12%
- in other currencies	1 223	4%	4 898	2%
Due from other banks				
- in Russian roubles	99	0%	2 169	11%
- in other currencies	2 840	5%	1 239	0%
Loans and advances to customers				
- in Russian roubles	170 215	14%	151 481	15%
- in other currencies	4 863	9%	5 973	8%
Investment securities available for sale				
- in Russian roubles	6 878	10%	4 899	11%
- in other currencies	9 530	2%	5 698	4%
Interest-bearing liabilities				
Due to other banks				
- in Russian roubles	3 392	8%	17 380	11%
- in other currencies	758	1%	2 431	1%
Current accounts and demand deposits				
- in Russian roubles	49 069	0%	38 967	0%
- in other currencies	4 185	0%	5 381	0%
Term deposits				
- in Russian roubles	125 851	9%	97 780	12%
- in other currencies	21 841	2%	27 530	4%
Debt securities in issue				
- in Russian roubles	4 244	9%	7 429	9%
- in other currencies	3	0%	-	-
Subordinated loans				
- in Russian roubles	3 000	9%	3 000	9%
- in other currencies	608	8%	730	8%

The sign "-" in the table above means that the Group does not have any assets or liabilities in the corresponding currency.

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2016 is set out below:

(in millions of Russian roubles)	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	23 182	3 515	-	26 697
Mandatory cash balances with the Bank of Russia	1 583	-	-	1 583
Trading securities	1 669	-	-	1 669
Due from other banks	99	728	2 825	3 652
Loans and advances to customers	175 038	-	40	175 078
Investment securities available for sale	16 768	25	-	16 793
Other financial assets	1 449	1	-	1 450
Total financial assets	**219 788**	**4 269**	**2 865**	**226 922**
Non-financial assets	**11 971**	**-**	**-**	**11 971**
Total assets	**231 759**	**4 269**	**2 865**	**238 893**
Financial liabilities				
Due to other banks	3 391	758	1	4 150
Customer accounts	200 088	431	427	200 946
Debt securities in issue	5 001	-	-	5 001
Other financial liabilities	577	-	-	577
Subordinated loans	3 000	-	608	3 608
Total financial liabilities	**212 057**	**1 189**	**1 036**	**214 282**
Non-financial liabilities	**850**	**-**	**-**	**850**
Total liabilities	**212 907**	**1 189**	**1 036**	**215 132**
Net balance sheet position	**18 852**	**3 080**	**1 829**	**23 761**
Credit related commitments (Note 31)	**19 233**	**-**	**-**	**19 233**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

29 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2015 is disclosed in table below:

(in millions of Russian roubles)	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	16 956	14 306	1	31 263
Mandatory cash balances with the Bank of Russia	1 122	-	-	1 122
Trading securities	5 349	-	-	5 349
Due from other banks	2 209	1 199	-	3 408
Loans and advances to customers	157 421	-	33	157 454
Investment securities available for sale	10 957	832	-	11 789
Other financial assets	1 811	3	-	1 814
Total financial assets	**195 825**	**16 340**	**34**	**212 199**
Non-financial assets	**11 689**	**-**	**-**	**11 689**
Total assets	**207 514**	**16 340**	**34**	**223 888**
Financial liabilities				
Due to other banks	17 378	2 431	2	19 811
Customer accounts	168 572	524	562	169 658
Debt securities in issue	7 433	-	-	7 433
Other financial liabilities	491	-	-	491
Subordinated loans	3 000	-	730	3 730
Total financial liabilities	**196 874**	**2 955**	**1 294**	**201 123**
Non-financial liabilities	**554**	**-**	**-**	**554**
Total liabilities	**197 428**	**2 955**	**1 294**	**201 677**
Net balance sheet position	**10 086**	**13 385**	**(1 260)**	**22 211**
Credit related commitments (Note 31)	**19 844**	**-**	**331**	**20 175**

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The process of control over liquidity risk is regulated by the Bank of Russia's instructions and internal regulations of the Group.

For the purpose of liquidity loss risk assessment and analysis, the Bank applies various methods, including the method of liquidity analysis based on cash flows.

29 Financial Risk Management (Continued)

Liquidity risk management is exercised through agreeing repayment dates for assets placed and liabilities attracted by the Bank and through maintaining a required volume of highly liquid funds. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. At 31 December 2016 and 31 December 2015 and as well as during 2016 and 2015 the Bank complied with the capital adequacy ratios.

The Group monitors compliance with the liquidity ratios set by the Bank of Russia on a daily basis.

To analyse the liquidity risk, the Group reviews its dependence on interbank market transactions, transactions of large customers and credit risk concentration. The Group seeks to maintain a stable resource base which primarily comprises deposits of legal entities, individual deposits and due to other banks. Special attention is given to quality and diversity of assets.

When forming its securities portfolio the Group focusses on the Bank of Russia's Lombard List to get access to refinancing instruments.

The liquidity risk analysis is based on expected maturities.The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The expected maturity of investment securities available for sale is based on offer agreement date.

In accordance with legislation of the Russian Federation term deposits of individuals can be withdrawn ahead-of-schedule. However based on prior experience the management believes that although deposits can be withdrawn early, these customer accounts form a long-term and stable resource for the Group.

Group management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

At 31 December 2016, the Group included some of its current customer accounts totalling RR 22 785 million into categories other than demand and less than one month, based on historical experience in cash withdrawal from current accounts. In 2016, the Group introduced a more sophisticated statistical model for the distribution of stable balances on customer accounts among maturity categories. At 31 December 2015, all current customer accounts totalling RR 44 348 million were classified within demand and less than one month.

29 Financial Risk Management (Continued)

To manage its liquidity risk, the Group monitors expected maturities that are presented below as at 31 December 2016:

(in millions of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Between 1 and 5 years	Over 5 years	No maturity	Total
Financial assets							
Cash and cash equivalents	26 697	-	-	-	-	-	26 697
Mandatory cash balances with the Bank of Russia	334	458	393	395	3	-	1 583
Trading securities	1 669	-	-	-	-	-	1 669
Due from other banks	1 002	1 937	-	-	-	713	3 652
Loans and advances to customers	6 665	33 583	32 682	65 817	36 331	-	175 078
Investment securities available for sale	224	4 300	1 307	10 163	414	385	16 793
Other financial assets	1 450	-	-	-	-	-	1 450
Total financial assets	**38 041**	**40 278**	**34 382**	**76 375**	**36 748**	**1 098**	**226 922**
Non-financial assets	-	-	1 152	4 961	-	5 858	11 971
Total assets	**38 041**	**40 278**	**35 534**	**81 336**	**36 748**	**6 956**	**238 893**
Financial liabilities							
Due to other banks	152	207	588	2 084	1 119	-	4 150
Customer accounts	43 032	59 382	51 093	47 435	4	-	200 946
Debt securities in issue	499	642	610	3 250	-	-	5 001
Other financial liabilities	577	-	-	-	-	-	577
Subordinated loans	-	-	-	3 183	425	-	3 608
Total financial liabilities	**44 260**	**60 231**	**52 291**	**55 952**	**1 548**	**-**	**214 282**
Non-financial liabilities	-	3	-	-	847	-	850
Total liabilities	**44 260**	**60 234**	**52 291**	**55 952**	**2 395**	**-**	**215 132**
Net liquidity gap of financial assets and financial liabilities	**(6 219)**	**(19 953)**	**(17 909)**	**20 423**	**35 200**	**-**	**11 542**
Cumulative liquidity gap	**(6 219)**	**(26 172)**	**(44 081)**	**(23 658)**	**11 542**	**-**	**-**
Off-balance sheet commitments							
Financial guarantees	2	-	-	-	-	**-**	**2**
Other credit related commitments	19 231	-	-	-	-	**-**	**19 231**
Total off-balance sheet credit related commitments (Note 31)	**19 233**	**-**	**-**	**-**	**-**	**-**	**19 233**

29 Financial Risk Management (Continued)

The maturity analysis at 31 December 2015 is as follows:

(in millions of Russian roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Between 1 and 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial assets							
Cash and cash equivalents	31 263	-	-	-	-	-	31 263
Mandatory cash balances with the Bank of Russia	409	341	175	197	-	-	1 122
Trading securities	5 343	-	-	-	-	6	5 349
Due from other banks	2 169	-	40	-	-	1 199	3 408
Loans and advances to customers	5 129	37 411	40 362	48 593	25 959	-	157 454
Investment securities available for sale	309	1 811	2 366	6 111	-	1 192	11 789
Other financial assets	1 814	-	-	-	-		1 814
Total financial assets	**46 436**	**39 563**	**42 943**	**54 901**	**25 959**	**2 397**	**212 199**
Non-financial assets	-	-	365	1 536	-	9 788	11 689
Total assets	**46 436**	**39 563**	**43 308**	**56 437**	**25 959**	**12 185**	**223 888**
Financial liabilities							
Due to other banks	10 073	4 373	844	3 867	654	-	19 811
Customer accounts	61 993	51 257	26 534	29 863	11	-	169 658
Debt securities in issue	634	1 551	1 069	3 980	199	-	7 433
Other financial liabilities	491	-	-	-	-	-	491
Subordinated loans	-	-	-	3 220	510	-	3 730
Total financial liabilities	**73 191**	**57 181**	**28 447**	**40 930**	**1 374**	**-**	**201 123**
Non-financial liabilities	**-**	**43**	**-**	**-**	**511**	**-**	**554**
Total liabilities	73 191	57 224	28 447	40 930	1 885	-	201 677
Net liquidity gap of financial assets and financial liabilities	**(26 755)**	**(17 618)**	**14 496**	**13 971**	**24 585**	**-**	**8 679**
Cumulative liquidity gap	**(26 755)**	**(44 373)**	**(29 877)**	**(15 906)**	**8 679**	**-**	**-**
Off-balance sheet commitments							
Financial guarantees	331	-	-	-	-	-	331
Other credit related commitments	19 844	-	-	-	-	-	19 844
Total off-balance sheet credit related commitments (Note 31)	20 175	-	-	-	-	-	20 175

29 Financial Risk Management (Continued)

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows with consideration of all future payments (including future interest payments during the whole period of the asset or liability). Liabilities were classified into groups on the basis of the earliest date when the settlement requirement to the Group could arise. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

The maturity analysis of undiscounted cash flows of financial liabilities at 31 December 2016 is as follows:

(in millions of Russian roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to12 months**	**From 12 months to 2 years**	**From 2 to 3 years**	**Over 3 years**	**Total cash outflow**	**Carrying value**
Financial liabilities								
Due to other banks	177	318	718	874	856	2 184	5 127	4 150
Customer accounts	73 151	53 224	40 228	41 388	1 816	8	209 815	200 946
Debt securities in issue	524	765	745	1 884	1 031	674	5 623	5 001
Other financial liabilities	577	-	-	-	-	-	577	577
Subordinated loans	-	163	165	504	314	3 646	4 792	3 608
Total potential future payments for financial obligations	**74 429**	**54 470**	**41 856**	**44 650**	**4 017**	**6 512**	**225 934**	**214 282**
Credit related commitments	19 233	-	-	-	-	-	19 233	

The maturity analysis of undiscounted cash flows of financial liabilities at 31 December 2015 is as follows:

(in millions of Russian roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to12 months**	**From 12 months to 2 years**	**From 2 to 3 years**	**Over 3 years**	**Total cash outflow**	**Carrying value**
Financial liabilities								
Due to other banks	10 157	4 570	1 008	1 768	1 083	2454	21 040	19 811
Customer accounts	62 923	55 316	29 192	31 425	1 649	31	180 536	169 658
Debt securities in issue	677	1 770	1 296	1 920	1 144	1 778	8 585	7 433
Other financial liabilities	491	-	-	-	-	-	491	491
Subordinated loans	-	169	170	338	550	4 068	5 295	3 730
Total potential future payments for financial obligations	**74 248**	**61 825**	**31 666**	**35 451**	**4 426**	**8 331**	**215 947**	**201 123**
Credit related commitments	20 175	-	-	-	-	-	20 175	
Term deals:								
- outflows	-	477	-	-	-	-	477	
- inflows	-	(482)	-	-	-	-	(482)	

29 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement as a lump sum in full. In accordance with IFRS 7, Financial Instruments: Disclosures" issued financial guarantee contracts are included at the maximum amount of the guarantee in the earliest period in which the guarantee could be called.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Operational risk. Operational risk is defined by the Group as the risk of losses arising from insufficient organisation of the Group's processes, deliberate or non-deliberate actions of employees or third parties, failure of information, technology or other systems and as a result of external events.

The organisational process of operational risk management, the structure, roles and functions of the process participants are set out in internal documents of the Group's head credit unit in accordance with the recommendations of the CBRF and the Basel Committee for Bank Supervision (Basel II).

30 Management of Capital

The Bank’s objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord.

In order to implement and achieve the goals and objectives of capital management, the Bank uses the following procedures:

- forecasting core performance indicators;
- planning capital requirements;
- monitoring capital adequacy.

At 31 December 2016, regulatory capital calculated in accordance with the technique to estimate equity (capital) amount and adequacy ratio (“Basel III”) established by the Bank of Russia is RR 29 235 million, including RR 6 625 million received in the form of additional capitalisation through federal loan bonds (OFZ) (at 31 December 2015: RR 27 994 million).

Under the capital requirements set by the Bank of Russia, banks have to maintain the ratio of regulatory capital to risk-weighted assets (“statutory capital ratio”) above the prescribed minimum level of 10%. At 31 December 2016, this statutory capital ratio is 12.4% (31 December 2015: 13.0%). At the end of the reporting period and as well as during 2016 and 2015 the Bankcomplied with the capital adequacy ratios.

In October 2015, the Bank joined the programme for government support in the form of additional capitalisation through federal loan bonds (OFZ).

(in millions of Russian roubles)

30 Management of Capital (Continued)

Under the subordinated loan agreement executed with the State Corporation Deposit Insurance Agency, the Bank received five federal loan bond issues with the aggregate nominal value of RR 6 625 million with maturity dates from 2025 to 2034. Interest rates on these loans are equal to coupon rates under relevant OFZ issues plus 1% p.a.

The Bank also signed an agreement with the Deposit Insurance Agency to monitor its activities, and certain provisions of this Agreement were approved by the extraordinary general meeting of the Bank's shareholders. Under this Agreement the Bank undertakes the following obligations for the period of three years from the date of the funds' disbursement:

- to increase the aggregate amount of mortgage (housing) lending and/or the amount of lending to small and medium businesses and/or entities operating in industries covered by the Agreement by at least by 1% per month;

- not to exceed the level of compensation (payroll) to its key management personnel achieved at 1 January 2015.

The Agreement also provides for an increase in the Bank's capitalisation in the amount of at least 50% of the received subordinated liability at the expense of additional contributions from the Bank's shareholders and/or allocation of at least 75% of the Bank's profit to increase its capital till the target level is achieved.

Basel III capital adequacy ratio

The table below presents the capital structure analysis calculated in accordance with the Basel requirements.

	31 December 2016	31 December 2015
Common equity tier 1 capital	22 519	20 716
Additional tier 1 capital	13	13
Tier 1 capital	**22 532**	**20 729**
Tier 2 capital	8 438	9 214
Total capital	**30 970**	**29 943**
Risk-weighted assets	**199 810**	**181 422**
Common Equity Tier 1 capital adequacy ratio (min 4.5%)	11.27	11.42
Tier 1 capital adequacy ratio (min 6.0%)	11.28	11.43
Total capital adequacy ratio (min 8.0%)	15.50	16.50

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. The Group's management believes that the allowance of RR 3 million recognised at 31 December 2016 (31 December 2015: RR 43 million) is sufficient for possible payments under legal proceedings.

Tax legislation. Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by tax authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2016, the management has not made any provisions for potential tax liabilities (at 31 December 2015: no provision), as the management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2016 and 2015, the Group had no contractual capital expenditure commitments in respect of renovation of buildings and acquisition of premises and equipment.

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

(in millions of Russian roubles)	**2016**	**2015**
Due within 1 year	190	296
Between 1 and 5 years	341	369
Due after 5 years	584	555
Total operating lease commitments	**1 115**	**1 220**

Compliance with covenants. At 31 December 2015, the Group repaid the deposits attracted under the programme of the European Bank for Reconstruction and Development for lending to small and medium businesses, the agreement with which provided for compliance with covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, Therefore, carry less risk than a direct borrowing.

31 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations by the Group's management to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total 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 term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. 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.

Outstanding credit related commitments and performance guarantees are as follows:

(in millions of Russian roubles)	**31 December 2016**	**31 December 2015**
Unused limits on overdraft loans and credit lines with debt limit	18 236	18 357
Undrawn credit lines with a payment limit	995	1 487
Financial guarantees	2	331
Total credit related commitments	**19 233**	**20 175**
Performance guarantees	13 092	12 556
Undrawn limits on issuance of guarantees	301	260
Total credit related commitments and performance guarantees	**32 626**	**32 991**

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

In 2016, the Bank issued an irrevocable financial guarantee to a related party in the amount of RR 40 million and a performance guarantee in the amount of RR 20 million (2015: a performance guarantee in the amount of RR 331 million). At 31 December 2016, period of validity of these guarantees was expired .

31 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

(in millions of Russian roubles)	Note	31 December 2016 Asset pledged	31 December 2016 Related liability	31 December 2015 Asset pledged	31 December 2015 Related liability
Pledged debt securities under sale and repurchase agreements with the Bank of Russia	8, 11, 16	-	-	9 889[1]	9 503
Pledged receivables related to funds attracted from AO MSP Bank	10, 16	3 294	3 382	3 585	3 769
Pledged receivables related to funds attracted from the Bank of Russia	10, 16	-	-	2 966	2 809
Total		**3 294**	**3 382**	**16 440**	**16 081**

Mandatory cash balances with the Bank of Russia in the amount of RR 1 583 million (2015: RR 1 122 million) represent mandatory reserve deposits with the Bank of Russia which are not available to finance the Group's day-to-day operations.

At 31 December 2015 loans and advances to customers include loans with a carrying amount of RR 2 966 million with receivable balances pledged as collateral for term placements of the Bank of Russia.

Cash due from other banks includes insurance deposits placed with non-resident banks in the amount of RR 713 million for settlements with bank cards (2015: RR 1 199 million). This cash is not available to finance the Group's day-to-day operations. Refer to Note 9.

[1] This amount includes the following: debt securities of RR 4 678 million (Refer to Notes 8 and 11) and OFZ of RR 5 211 million received within the programme for government support.

32 Transfers of Financial Assets

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods.

Securitisation transactions. The Group transferred mortgage loans to securitisation structured entities as follows:

- ZAO IAV 4 - RR 3 411 million in June 2015;
- ZAO IAV 3 - RR 3 481 million in December 2013;
- ZAO IAV 2 - RR 4 214 million in December 2012;
- ZAO IAV 1 - RR 3 853 million in December 2011.

In the fourth quarter of 2016, the structured entities ZAO IAV 1 and ZAO IAV 2 repaid class A and class B mortgage-backed bonds before the due date.

At 31 December 2016, the carrying value of the mortgage loans (less impairment provision) was RR 4 252 million (2015: RR 8 739 million).

At 31 December 2016, within the scope of securitisation transactions with mortgage loans the total carrying value of the issued bonds was RR 3 402 million (2015: RR 5 869 million). Refer to Note 18.

The following schedule summarises transfers where the Group continues to recognise all of the transferred financial assets and the risks and rewards related to these assets.

	31 December 2016			31 December 2015		
(in millions of Russian roubles)	**Carrying amount of the assets***	**Carrying amount of the related borrowings***	**Net position**	**Carrying amount of the assets***	**Carrying amount of the related borrowings***	**Net position**
Securitised mortgage loans	4 606	4 583	23	9 669	9 490	179

* securitisation structured entities

The following schedule provides information about transfers where the counterparties to the associated liabilities have recourse only to the transferred assets. This is the case for the Group's securitisation transactions.

	31 December 2016			31 December 2015		
(in millions of Russian roubles)	**Fair value of assets***	**Fair value of the related borrowings***	**Net position**	**Fair value of assets***	**Fair value of the related borrowings***	**Net position**
Securitised mortgage loans	4 729	4 525	204	9 475	8 330	1 145

* securitisation structured entities

Sale and repurchase transactions. At 31 December 2015, the Group had debt securities in the amount of RR 4 678 million and OFZ attracted within the programme for government support in the amount of RR 5 211 million that are subject to obligation to be repurchased by the Group for a fixed pre-determined price.

Refer to Note 16 for the carrying value of obligations from these sale and repurchase transactions.

33 Derivative Financial Instruments and Term Deals

Derivative financial instruments and term deals entered into by the Group include foreign exchange contracts and term contracts for precious metals. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

At 31 December 2016, the Group had no outstanding liabilities related to term contracts for precious metals (2015: the Group had such liabilities maturing in April 2016). The fair value gain on these term deals at 31 December 2015 was RR 5 million.

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies professional judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2016			2015		
(in millions of Russian roubles)	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS						
Trading securities						
- Russian Federation Eurobonds	863	-	-	-	-	-
- Corporate bonds	446	-	-	445	-	-
- Corporate Eurobonds	360	-	-	4 898	-	-
- Corporate shares	-	-	-	6	-	-
Investment securities available for sale						
- Corporate Eurobonds	9 382	-	-	3 936	-	-
- Corporate bonds	5 335	-	-	4 713	-	-
- Federal loan bonds	1 491	-	-	-	-	-
- Russian Federation Eurobonds	123	-	-	1 762	-	-
- Bonds of constituents of the Russian Federation	77	-	-	186	-	-
- Corporate shares	26	-	359	833	-	359
Other financial assets						
- Term deals	-	-	-	-	5	-
NON-FINANCIAL ASSETS						
Operating real estate	-	-	4 253	-	-	4 107
Investment property	-	-	3 825	-	-	54
Total assets recurring fair value measurements	**18 103**	**-**	**8 437**	**16 779**	**5**	**4 520**

34 Fair Value Disclosures (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows:

(in millions of Russian roubles)	2016	2015
Fair value at 1 January	**4 520**	**359**
Reclassification of operating real estate	137	1 931
Revaluation of operating real estate for market changes	128	2 176
Disposal of operating real estate	(119)	-
Addition of investment properties	1 450	-
Reclassification of investment properties	2 356	54
Revaluation of investment properties for market changes	25	-
Disposal of investment properties	(60)	-
Fair value at the end of the reporting period	**8 437**	**4 520**
Revaluation gains/(losses) recognised in profit or loss for the year	**98**	**(182)**

At 31 December 2016 and 2015, the fair value of non-quoted securities available for sale was assessed based on the amount calculated by an independent appraiser.

34 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2016			2015		
(in millions of Russian roubles)	**Level 2**	**Level 3**	**Carrying value**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL ASSETS						
Cash and cash equivalents						
- Cash on hand	9 126	-	9 126	10 388	-	10 388
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	6 841	-	6 841	5 604	-	5 604
- Correspondent accounts and placements with banks with original maturity less than one month:						
- Russian Federation	7 215	-	7 215	965	-	965
- other countries	3 515	-	3 515	14 306	-	14 306
Mandatory cash balances with the Bank of Russia	-	1 583	1 583	-	1 122	1 122
Due from other banks						
- Short-term placements with other banks	2 945	-	2 939	2 209	-	2 209
- Insurance deposits with non-resident banks	713	-	713	1 199	-	1 199
Loans and advances to customers						
- Loans to corporate customers	-	85 109	86 944	-	72 130	73 212
- Loans to small and medium enterprises	-	26 349	25 913	-	32 483	33 078
- Mortgage loans	-	45 572	45 096	-	34 389	35 401
- Other loans to individuals	-	18 015	17 125	-	15 128	15 763
Other financial assets						
- Settlements with currency and stock exchanges	919	-	919	729	-	729
- Banking cards receivables	-	351	351	-	320	320
- Receivables	-	180	180	-	760	760
- Other	-	-	-	-	5	5
TOTAL	**31 274**	**177 159**	**208 460**	**35 400**	**156 337**	**195 061**

34 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	2016			2015		
(in millions of Russian roubles)	**Level 2**	**Level 3**	**Carrying value**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES						
Due to other banks						
- Placements of other banks	4 011	-	4 140	6 706	-	7 230
- Correspondent accounts of other banks	10	-	10	269	-	269
- Cash received under sale and repurchase agreements with the Bank of Russia	-	-	-	9 503	-	9 503
- Deposits of the Bank of Russia	-	-	-	2 815	-	2 809
Customer accounts						
Current accounts and demand deposits						
- Corporate customers	35 782	-	35 782	26 078	-	26 078
- Individuals	17 472	-	17 472	18 270	-	18 270
Term deposits						
- Corporate customers	27 483	-	27 448	16 440	-	16 343
- Individuals	122 163	-	120 244	110 342	-	108 967
Debt securities in issue						
- Mortgage backed bonds in issue	3 407	-	3 402	4 862	-	5 869
- Promissory notes	1 571	-	1 568	1 434	-	1 427
- Deposit certificates	31	-	31	137	-	137
Other financial liabilities						
- Payables	-	471	471	-	382	382
- Banking cards payables	-	75	75	-	71	71
- Settlements on conversion operations	-	11	11	-	1	1
- Other liabilities	-	20	20	-	37	37
Subordinated loans	-	3 702	3 608	-	3 620	3 730
TOTAL	**211 930**	**4 279**	**214 282**	**196 856**	**4 111**	**201 123**

The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects this factor.

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with the above measurement categories as at 31 December 2016:

(in millions of Russian roubles)	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	9 126	-	-	9 126
- Cash balances with the Bank of Russia	6 841	-	-	6 841
- Correspondent accounts and placements with banks with original maturity less than one month	10 730	-	-	10 730
Mandatory cash balances with the Bank of Russia	1 583	-	-	1 583
Trading securities				
- Russian Federation Eurobonds	-	-	863	863
- Corporate bonds	-	-	446	446
- Corporate Eurobonds	-	-	360	360
Due from other banks				
- Short-term placements with other banks	2 939	-	-	2 939
- Insurance deposits with non-resident banks	713	-	-	713
Loans and advances to customers				
- Loans to corporate customers	86 945	-	-	86 945
- Loans to small and medium enterprises	25 912	-	-	25 912
- Mortgage loans	45 096	-	-	45 096
- Other loans to individuals	17 125	-	-	17 125
Investment securities available for sale				
- Corporate Eurobonds	-	9 382	-	9 382
- Corporate bonds	-	5 335	-	5 335
- Federal loan bonds	-	1 491	-	1 491
- Corporate shares	-	385	-	385
- Russian Federation Eurobonds	-	123	-	123
- Bonds of constituents of the Russian Federation	-	77	-	77
Other financial assets				
- Settlements with currency and stock exchanges	919	-	-	919
- Banking cards receivables	351	-	-	351
- Receivables	180	-	-	180
TOTAL FINANCIAL ASSETS	**208 460**	**16 793**	**1 669**	**226 922**

35 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with measurement categories as at 31 December 2015:

(in millions of Russian roubles)	Loans and receivables	Available for sale assets	Trading assets	Total
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	10 388	-	-	10 388
- Cash balances with the Bank of Russia	5 604	-	-	5 604
- Correspondent accounts and placements with banks with original maturity less than one month	15 271	-	-	15 271
Mandatory cash balances with the Bank of Russia	1 122	-	-	1 122
Trading securities				
- Russian Federation Eurobonds	-	-	-	-
- Corporate bonds	-	-	445	445
- Corporate Eurobonds	-	-	4 898	4 898
- Corporate shares	-	-	6	6
Due from other banks				
- Short-term placements with other banks	2 209	-	-	2 209
- Insurance deposits with non-resident banks	1 199	-	-	1 199
Loans and advances to customers				
- Loans to corporate customers	73 212	-	-	73 212
- Loans to small and medium enterprises	33 078	-	-	33 078
- Mortgage loans	35 401	-	-	35 401
- Other loans to individuals	15 763	-	-	15 763
Investment securities available for sale				
- Corporate Eurobonds	-	3 936	-	3 936
- Corporate bonds	-	4 713	-	4 713
- Federal loan bonds	-	-	-	-
- Russian Federation Eurobonds	-	1 762	-	1 762
- Corporate shares	-	1 192	-	1 192
- Bonds of constituents of the Russian Federation	-	186	-	186
Other financial assets				
- Settlements with currency and stock exchanges	729	-	-	729
- Banking cards receivables	320	-	-	320
- Receivables	760	-	-	760
- Other assets	-	-	5	5
TOTAL FINANCIAL ASSETS	**195 056**	**11 789**	**5 354**	**212 199**

All Group’s financial liabilities are carried at amortised cost.

36 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial 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 does not classify non-controlling interest owners as related parties due to their insignificant influence on the Group's financial and operating decisions.

At 31 December 2016, the outstanding balances with related parties were as follows:

	Parent		The Bank's management		Associates and other related companies	
(in millions of Russian roubles)	Carrying amount	Average rate	Carrying amount	Average rate	Carrying amount	Average rate
Cash and cash equivalents	-	-	-	-	356	-
Loans and advances to customers						
Gross amount of loans and advances to customers	-	-	3	16.9%	6 425	12.8%
Provision for impairment of loans and advances to customers	-	-	-	-	(367)	-
Other financial assets	-	-	-	-	43	-
Customer accounts						
Current accounts and demand deposits	-	-	11	0.0%	345	0.0%
Term deposits	-	-	124	3.8%	294	8.9%
Other financial liabilities	-	-	-	-	58	-

At 31 December 2015, the outstanding balances with related parties were as follows:

	Parent		The Bank's management		Associates and other related companies	
(in millions of Russian roubles)	Carrying amount	Average rate	Carrying amount	Average rate	Carrying amount	Average rate
Loans and advances to customers						
Gross amount of loans and advances to customers	-	-	11	11.8%	2 160	12.8%
Provision for impairment of loans and advances to customers	-	-	-	-	(185)	-
Customer accounts						
Current accounts and demand deposits	-	-	21	0.0%	3	0.0%
Term deposits	-	-	106	9.9%	45	11.9%
Off-balance sheet commitments						
Financial guarantee	331	-	-	-	-	-
Performance guarantee	-	-	-	-	48	-

36 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2016 and 2015 were as follows:

(in millions of Russian roubles)	2016 Parent	2016 Key management personnel	2016 Associates and other related companies	2015 Parent	2015 Key management personnel	2015 Associates and other related companies
Amounts lent to related parties during the period	-	5	7 695	-	2	1 921
Amounts repaid by related parties during the period	-	13	3 294	-	16	348

In 2016, the Bank assigned to a related party its loan receivables for the total amount of RR 1 384 million, the revenue from these transactions amounted to RR 1 384 million. In 2016, the Bank received loan receivables amounting to RR 22 763 million from a related party, the revenue amounted to RR 22 763 million.

The income and expense items with related parties for the years 2016 and 2015 were as follows:

(in millions of Russian roubles)	2016 Parent	2016 Key management personnel	2016 Associates and other related companies	2015 Parent	2015 Key management personnel	2015 Associates and other related companies
Interest income:						
Loans and advances to customers	-	-	551	-	1	37
Interest expense:						
Term deposits	-	4	2	60	184	3
Subordinated loans	-	-	-	26	-	-
Fee and commission income	-	-	18	6	-	-
Dividend income received	-	-	-	-	-	11
Administrative and other operating expenses	-	-	22	-	-	-

Key management personnel includes the members of the Management Board and of the Board of Directors.

Associated companies and other related parties of the Group include subsidiaries that are non-consolidated due to immateriality, controlled companies and companies under significant influence of the management of the Group. In 2016 other companies of the Group did not pay compensations.

In 2016, the total remuneration of the Group’s key management personnel comprised salaries, discretionary bonuses and other short-term benefits of RR 134 million (2015: RR 232 million), including payments to pension funds of RR 14 million (2015: RR 23 million).

37 Events after the End of the Reporting Period

In January 2017, the Bank's ordinary shares were included into the quotation list of the second level of securities listed at PAO Moscow Exchange.

In February 2017, the Bank's shareholder V. A. Pichugov sold 10.0% of the Bank's ordinary shares.

In March 2017, PAO Bank "Saint-Petersburg" bought 5.8% of the Bank's ordinary shares.

In 2017, the Group is planning to securitise its mortgage loans.