Public joint stock company
Asian-Pacific Bank

Consolidated Financial Statements

as at and for the year ended
31 December 2016

Contents

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Auditors' Report

To the Shareholders and the Board of Directors

Public joint stock company Asian-Pacific Bank

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

Audited entity: Public joint stock company Asian-Pacific Bank.

Registration No. in the Unified State Register of Legal Entities 1022800000079.

Blagoveschensk, Russia.

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

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

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

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

Basis for Qualified Opinion

As at 31 December 2016, the Group has loans issued to LLC "FTK", V.M.H.Y.HOLDINGS LIMITED and Vdovin A.V. included in loans to customers in net carrying amount of RUB 5 134 109 thousand. We were unable to obtain appropriate sufficient audit evidence with respect to recoverability of the above stated loans as we were not provided with the related information by the management of the Group. As a result, we were unable to determine whether adjustments might have been found necessary with respect to the above stated loans and related elements of the consolidated financial statements for 2016.

As at 31 December 2016, the Group has funds on accounts in PJSC "M2M Private Bank", which license for banking operations is revoked as at 31 December 2016, included in due from banks in net carrying amount of RUB 3 682 206 thousand. We were unable to obtain appropriate sufficient audit evidence with respect to assumptions used by the Group to estimate future cash flows for impairment assessment purposes of the above stated balances in PJSC "M2M Private Bank" as we were not provided with the related information by the management of the Group. As a result, we were unable to determine whether adjustments might have been found necessary with respect to the above stated caption and related elements of the consolidated financial statements for 2016.

As disclosed in note 1 "Background" to the consolidated financial statements for 2016 financial results and cash flows of PJSC "M2M Private Bank" from the date that control commenced on 8 July 2016 until the date that control ceased on 9 December 2016 were not included in the consolidated financial statements of the Group. We were unable to reliably determine the effect of this departure from International Financial Reporting Standards on the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, consolidated statement of cash flows and related elements of the consolidated financial statements for 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the first and second paragraphs of the Basis for Qualified Opinion and except for the effects of the matter described in the third paragraph of the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion on the fair presentation of the consolidated financial statements, we draw attention to note 41 "Going concern" to the consolidated financial statements which describes that as at 31 December 2016 the Bank had loans issued to PJSC "M2M Private Bank" as well as investments in shares of PJSC "M2M Private Bank" recognised in annual financial statements prepared in accordance with Russian Accounting Legislation ("RAL"). As license for banking operations of PJSC "M2M Private Bank" was revoked, during 2017 the Bank should create significant amount of provisions for possible losses on the above stated balances in accordance with the requirements of RAL and the Bank of Russia that can result in violation by the Bank of number of mandatory ratios. Uncertainty in relation to effect of extra provisions for possible losses on mandatory ratios together with uncertainty in relation to further actions of the Bank of Russia towards the Bank along with the other matters described in note 41 to the consolidated financial statements indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

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

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

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

— the Group's compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia; and

— compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

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

— Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia. The calculation of the mandatory ratios of the Group is based on figures forming annual financial statements of the Bank prepared in accordance with RAL on which we issued modified audit opinion dated 31 March 2017.

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

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

- as at 31 December 2016, the Bank's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2016, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2016, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2016, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2016, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2016 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

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

Kolosov A.E.

Director (power of attorney dated 24 March 2016 No. 12/16)

JSC "KPMG"

28 April 2017

Moscow, Russia

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	Notes	2016 RUB'000	2015 RUB'000
Interest income	4	16 963 737	17 993 313
Interest expense	4	(9 108 262)	(10 752 297)
Net interest income		**7 855 475**	**7 241 016**
Deposit insurance expenses		(651 936)	(246 976)
Net interest income after deposit insurance expenses		**7 203 539**	**6 994 040**
Fee and commission income	5	3 354 166	2 660 735
Fee and commission expense		(509 935)	(402 154)
Net fee and commission income		**2 844 231**	**2 258 581**
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets		373 324	462 531
Loss from equity-accounted investee		(47 847)	-
Net foreign exchange gain	6	425 421	1 207 235
Net gain on operations with precious metals	7	138 279	112 534
Other operating income	8	1 094 106	1 093 023
Operating income		**12 031 053**	**12 127 944**
Impairment losses	9	(8 153 977)	(8 533 246)
Personnel expenses	10	(3 822 971)	(3 235 911)
Other general administrative expenses	11	(2 426 438)	(2 344 826)
Loss before income tax		**(2 372 333)**	**(1 986 039)**
Income tax benefit	12	297 594	401 214
Loss for the year		**(2 074 739)**	**(1 584 825)**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		602 447	590 945
- Net change in fair value transferred to profit or loss		(509 791)	(165 866)
Total items that are or may be reclassified subsequently to profit or loss		*92 656*	*425 079*
Items that will not be reclassified subsequently to profit or loss			
Revaluation of the buildings		263 509	-
Total items that will not be reclassified subsequently to profit or loss		*263 509*	-
Other comprehensive income for the year, net of income tax		**356 165**	**425 079**
Total comprehensive loss for the year		**(1 718 574)**	**(1 159 746)**

The consolidated financial statements were approved by the Management Board of the Bank on 28 April 2017 and were signed on its behalf by:

Mr. D.N. Makarov
Acting Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

«Азиатско-Тихоокеанский Банк» (публичное акционерное общество) Российская Федерация Амурская область город Благовещенск

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

	Notes	2016 RUB'000	2015 RUB'000
ASSETS			
Cash and cash equivalents	13	11 358 076	17 333 745
Obligatory reserves with the Central Bank of the Russian Federation		808 276	638 293
Financial instruments at fair value through profit or loss	14	105 132	413 626
Available-for-sale financial assets	15	17 661 490	20 506 720
including assets pledged under repurchase agreements	*15*	*1 386 954*	*3 258 557*
Due from banks	16	3 704 985	717 022
Amounts receivable under reverse repurchase agreements	17	-	9 617 023
Loans to customers	18	68 988 405	74 914 701
Net investments in finance leases	19	1 289 913	1 393 857
Investments in associates and other investments	20	121 818	575 000
Held-to-maturity investments	21	3 631 980	7 035 062
including assets pledged under repurchase agreements	*21*	*2 586 706*	*5 931 915*
Deferred tax assets	12	394 576	103 016
Property, equipment, intangible assets and investment property	23	6 636 115	5 137 753
Other assets	24	4 928 455	4 682 966
Total assets		**119 629 221**	**143 068 784**
LIABILITIES			
Derivative financial instruments	14	182 650	198 507
Deposits and balances from banks	25	2 344 943	3 972 106
Amounts payable under repurchase agreements	26	3 706 180	8 160 886
Current accounts and deposits from customers	27	90 353 494	104 026 865
Debt securities issued	28	1 956 248	4 684 558
Subordinated borrowings	29	4 488 287	5 385 283
Deferred tax liabilities	12	-	8 253
Other liabilities	30	2 420 153	736 486
Total liabilities		**105 451 955**	**127 172 944**
EQUITY			
Share capital	31	585 414	585 414
Treasury shares		(10 307)	(10 307)
Share premium		1 778 739	1 778 739
Additional paid-in capital		2 200 000	2 200 000
Revaluation reserve for available-for-sale financial assets		93 977	1 321
Revaluation surplus for buildings		1 866 378	1 614 979
Retained earnings		7 663 065	9 725 694
Total equity		**14 177 266**	**15 895 840**
Total liabilities and equity		**119 629 221**	**143 068 784**

Mr. D.N. Makarov
Acting Chairman of the Management Board

«Азиатско-Тихоокеанский Банк» (публичное акционерное общество) Российская Федерация Амурская область город Благовещенск «Азиатско-Тихоокеанский Банк» (ПАО)

Ms. Ya.E. Komova
Chief Accountant

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

	Notes	2016 RUB'000	2015 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		16 420 531	17 082 713
Interest payments		(9 702 435)	(9 207 179)
Fee and commission receipts		3 294 493	2 660 103
Fee and commission payments		(508 999)	(405 692)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial assets		672 020	506 605
Net receipts (payments) from foreign exchange		324 674	(791 377)
Other income receipts		1 065 831	1 093 023
Net receipts from operations with precious metals		124 533	112 534
Personnel and general administrative expenses paid		(5 894 152)	(5 541 749)
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(169 983)	257 898
Financial instruments at fair value through profit or loss		337 916	(187 301)
Available-for-sale financial assets		3 120 771	(6 255 321)
Due from banks		(5 841 157)	636 292
Amounts receivable under reverse repurchase agreements		9 614 437	(7 628 916)
Loans to customers		808 881	7 133 359
Net investments in finance leases		15 495	538 855
Other assets		(2 200 199)	(1 831 263)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(1 312 578)	(6 972 855)
Amounts payable under repurchase agreements		(4 409 251)	(1 031 368)
Current accounts and deposits from customers		(10 858 503)	15 150 685
Promissory notes		(468 472)	(256 173)
Other liabilities		1 155 845	331 477
Net cash flows from operating activities before income tax paid		**(4 410 302)**	**5 394 350**
Income tax (paid) received		(67 837)	125 941
Net cash flows from operations		**(4 478 139)**	**5 520 291**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		-	(3 064 310)
Redemption of held-to-maturity investments		3 025 400	1 833 455
Investments in associates and other investments		-	(2 300 000)
Net purchases of property, equipment, intangible assets and investment property		(1 467 591)	(277 392)
Net cash flows from investing activities		**1 557 809**	**(3 808 247)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net redemption of bonds		(2 174 685)	(1 625 152)
Cash contribution from shareholders		-	2 200 000
Net cash flows from financing activities		**(2 174 685)**	**574 848**

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

	Notes	2016 RUB'000	2015 RUB'000
Net (decrease) increase in cash and cash equivalents		**(5 095 015)**	**2 286 892**
Effect of changes in exchange rates on cash and cash equivalents		(880 654)	1 073 831
Cash and cash equivalents as at the beginning of the year		17 333 745	13 973 022
Cash and cash equivalents as at the end of the year	13	**11 358 076**	**17 333 745**

Mr. D.N. Makarov
Acting Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

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

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2015	**585 414**	**(10 307)**	**1 778 739**	**-**	**(423 758)**	**1 618 659**	**11 306 839**	**14 855 586**
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	-	-	(1 584 825)	(1 584 825)
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 147 734 thousand	-	-	-	-	590 945	-	-	590 945
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 41 466 thousand	-	-	-	-	(165 866)	-	-	(165 866)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*425 079*	-	-	*425 079*
Items that will not be reclassified to profit or loss								
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	-	(3 680)	3 680	-
Total items that will not be reclassified to profit or loss	-	-	-	-	-	*(3 680)*	*3 680*	-
Total comprehensive loss for the year, net of income tax	**-**	**-**	**-**	**-**	**425 079**	**(3 680)**	**(1 581 145)**	**(1 159 746)**
Transactions with shareholders, recorded directly in equity								
Cash contribution from shareholders	-	-	-	2 200 000	-	-	-	2 200 000
Total transactions with shareholders, recorded directly in equity	**-**	**-**	**-**	**2 200 000**	**-**	**-**	**-**	**2 200 000**
Balance as at 31 December 2015	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**1 321**	**1 614 979**	**9 725 694**	**15 895 840**

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

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2016	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**1 321**	**1 614 979**	**9 725 694**	**15 895 840**
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	-	-	(2 074 739)	(2 074 739)
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 150 612 thousand	-	-	-	-	602 447	-	-	602 447
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 127 448 thousand	-	-	-	-	(509 791)			(509 791)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*92 656*			*92 656*
Items that will not be reclassified to profit or loss								
Revaluation of buildings, net of deferred tax of RUB 65 877 thousand						263 509	-	263 509
Transfer of revaluation surplus on disposal of buildings previously revalued						(12 110)	12 110	-
Total items that will not be reclassified to profit or loss						*251 399*	*12 110*	*263 509*
Total comprehensive loss for the year, net of income tax	-	-	-	-	**92 656**	**251 399**	**(2 062 629)**	**(1 718 574)**
Balance as at 31 December 2016	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**93 977**	**1 866 378**	**7 663 065**	**14 177 266**

Mr. D.N. Makarov
Acting Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

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

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of PJSC Asian-Pacific Bank (the "Bank") and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name "Amurpromstroybank" as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to "Asian-Pacific Bank" by decision of the shareholders. On 7 May 2010 LLC "PPFIN REGION", being a common majority shareholder for OJSC "Asian-Pacific Bank", OJSC "Kamchatprombank" and OJSC "Kolyma-Bank", merged the operations of these entities and therefore granted full control over OJSC "Kamchatprombank" and OJSC "Kolyma-Bank" to "Asian-Pacific Bank" (OJSC). In July 2015 the Bank was reorganised from an open joint stock company to a public joint stock company.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 209 (2015: 224) offices from which it conducts business throughout the Russian Federation including a head office, 4 regional branches, 36 additional offices, 168 operational offices. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the Bank's assets and liabilities is located in the Russian Federation.

As at 31 December 2016, the following shareholders held the issued shares of PJSC Asian-Pacific Bank:

Shareholder	2016 %	2015 %
LLC "PPFIN Region" (Russian Federation)	59.17	59.17
East Capital Financials Fund AB (Sweden)	17.91	17.91
TECHSUN ENTERPRISES LIMITED (Cyprus)	8.41	8.41
International Financial Corporation (USA)	6.71	6.71
EPIC VISION LTD (Marshall Islands)	2.64	-
LLC "Expo-Leasing" (a 100% owned subsidiary of the Bank)	1.76*	1.76*
Aksenov E.V.	-	3.08
Others	3.40	2.96
Total	**100.00**	**100.00**

* *Treasury shares*

Details of the subsidiaries and associates are as follows:

Name	Country of incorporation	Principal activities	Ownership, % 2016	Ownership, % 2015
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%
CJSC “Mortgage agent APB”	Russian Federation	Mortgage agent	see below	see below
CJSC “Mortgage agent APB 2”	Russian Federation	Mortgage agent	see below	see below
LLC “Specialized financial company APB 2”	Russian Federation	Asset-backed securitisation	see below	-
CUIF “Celena”	Russian Federation	Unit investment fund	40.99%*	-
PJSC “M2M Private Bank”	Russian Federation	Banking	100%**	25%
LLC ”Katerina Park”	Russian Federation	Hotel industry	100%**	25%
LLC “Pride M”	Russian Federation	Freight services	100%**	-

** The company was a subsidiary during 2016.*
*** The Bank does not actually control these companies due to withdrawal of license from PJSC “M2M Private Bank”.*

On 1 October 2010, 100% of the shares of LLC “Expo-Leasing” were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russian Federation. Its head office is in Moscow and it has 10 branches (2015: 10 branches) comprising a head office, 1 regional branch and 8 additional offices.

CJSC “Mortgage agent APB”, CJSC “Mortgage agent APB 2” and LLC “Specialized financial company APB 2” (“MA APB”, “MA APB 2” and “LLC SFC APB 2”) are structured entities established to ensure asset-backed securitisation (refer to note 28). These entities are not owned by the Group. Control arises through the predetermination of the entities’ activities, having rights to obtain the majority of benefits of the structured entities, and retaining the majority of the residual risks related to the entities. All bonds in the amount of RUB 1 390 000 thousand, issued by LLC SFC APB 2, were repurchased by the Bank.

On 4 May 2016, 51.58% of the shares of CUIF “Celena” were received by the Bank as a result of non-performance of repurchase agreement with PJSC ”BaikalBank”. CUIF “Celena” was registered in 2010 in Russian Federation. At the date of acquisition the fund was managed by Finance Trade Asset Management LLC licensed to manage investment funds in 2008. On 30 December 2016, CUIF “Celena” issued 58 533 additional investment units totaling RUB 64 140 thousand which resulted in the decrease of the Bank’s share down to 40.99%. The balances of CUIF “Celena” have not been consolidated over the control period as Management of the Group does not deem the effect to have significant impact on the amounts stated in the consolidated financial statements. As at the reporting date, investments in CUIF “Celena” are included in “Investments in associates and other investments”.

On 8 July 2016, the Group acquired 100% control over PJSC M2M “Private Bank”, previously controlled by the ultimate beneficial owners of the Group. In 2015 the Group in accordance with the PJSC “M2M Private Bank” share purchase agreement terms paid for 100% of shares amounting to RUB 2 300 000 thousand. The Group received 25% of shares on 27 October 2015 and 75% of shares on 8 July 2016 from LLC “Prosop Invest”. PJSC “M2M Private Bank” was registered in 1990 in the Russian Federation as Limited Liability Partnership “Moscow Innovation Commercial Bank of Economic Cooperation MICBEC”, in 1999 it was reorganised into Limited Liability Company “National Development Bank”, in 2001 – into Open Joint Stock Company “National Development Bank”, which in 2007 was renamed as Open Joint Stock Company “M2M Private Bank”. In 2015 the Bank’s name was brought in accordance with the Russian law and changed into PJSC “M2M Private Bank”. The Bank has been operating on the basis of the banking license issued by CBR in 2012. PJSC “M2M Private Bank” held 100% interest in the share capitals of

LLC “Katerina Park” (starting from 21 December 2015) and LLC “Pride M” (starting from 10 June 2016). On 9 December 2016, the Group lost control over PJSC “M2M Private Bank” and its subsidiaries due to withdrawal of its banking license and imposing of temporary administration. The balances of PJSC “M2M Private Bank” have not been consolidated over the control period as Management of the Group does not deem the effect to have significant impact on the amounts stated in the consolidated financial statements. As at the reporting date, investments in PJSC “M2M Private Bank” are included in “Investments in associates and other investments”.

In 2016 the average number of the Group’s employees was 4 029 (2015: 4 013).

Russian business environment

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

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

2 Basis of the consolidated financial statements preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

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

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- insurance agent commission – note 3
- loan impairment estimates - note 18
- building revaluation estimates - note 23
- estimates of fair values of financial assets and liabilities - note 40.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

Subsidiaries

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

Structured entities

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

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholders as the Group are accounted for from the date of acquisition by the Group. Accordingly, comparative information is not restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Group's equity. Any cash paid for the acquisition is debited to equity.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

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

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

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

Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and highly liquid financial assets with original maturities of less than ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments that are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

Amortised cost

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

Fair value measurement principles

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

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

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

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

Gains and losses on subsequent measurement

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

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repurchase agreements. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase agreements, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

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

Securitisation

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

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

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

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

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

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Leases

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Property and equipment

Owned assets

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

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

Revaluation

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

Leased assets

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

Depreciation

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

The estimated useful lives are as follows:

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 years.

Investment property

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

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

Impairment

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

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

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

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

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables), as well as held-to-maturity investments.

Loans and receivables

The Group reviews its loans and receivables to assess impairment on a regular basis.

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

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

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

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

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

Held-to-maturity investments

As for held-to-maturity investments, the assessment whether objective evidence of impairment exists is conducted based on the same principles, as for loans and receivables. Interest income is accrued on the base of reduced balance value with the interest rate applied for discounting future cash flows with the aim of evaluation of losses for impairment. Interest income is recognised in profit and loss. If the fair value of the debt instrument increases in the subsequent year and this increase is objectively related to the event, which occurred after the recognition of losses for impairment in profit and loss, the impairment loss is reversed by the recognition of income in profit and loss.

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

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

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

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

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value the presumption is that the carrying amount of investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Income and expense recognition in the consolidated financial statements

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

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

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

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

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

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

Hyperinflation accounting

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the consolidated financial statements of the Group. The Group plans to adopt these pronouncements when they become effective.

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

Classification and measurement

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment

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

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

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

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

Hedge accounting

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

Transition to IFRS 9

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

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

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements. Currently the Group is in the process of development of IFRS 9 implementation plan.

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

Other amendments

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

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*).

4 Interest income and expense

	2016 RUB'000	**2015 RUB'000**
Interest income		
Loans to customers	13 774 586	14 990 346
Available-for-sale financial assets	1 676 153	1 507 314
Due from banks and cash equivalents	860 497	222 195
Held-to-maturity investments	378 277	800 587
Net investments in finance leases	272 802	352 982
Financial instruments at fair value through profit or loss	1 422	119 889
	16 963 737	**17 993 313**
Interest expense		
Current accounts and deposits from customers	7 571 127	8 396 289
Deposits and balances from banks	714 348	1 250 948
Subordinated borrowings	582 876	505 924
Debt securities issued	239 911	599 136
	9 108 262	**10 752 297**

5 Fee and commission income

	2016 RUB'000	2015 RUB'000
Settlement operations	1 681 882	1 560 563
Insurance agent and consulting services commission	1 030 049	475 126
Accounts opening and maintenance	224 894	175 144
Guarantees issuance	168 072	195 341
Other	249 269	254 561
	3 354 166	**2 660 735**

Information on the basis of which insurance agent commission income is recognised in profit or loss is disclosed in note 3.

6 Net foreign exchange gain

	2016 RUB'000	2015 RUB'000
Gain on derivatives and spot transactions (except swaps)	750 267	816 173
(Loss) gain on swap operations	(260 476)	410 737
Loss from revaluation of financial assets and liabilities	(64 370)	(19 675)
	425 421	**1 207 235**

7 Net gain on operations with precious metals

	2016 RUB'000	2015 RUB'000
Gain on trading operations	124 533	95 356
Gain from revaluation of financial assets and liabilities and operations with derivatives	13 746	17 178
	138 279	**112 534**

8 Other operating income

	2016 RUB'000	2015 RUB'000
Penalties on loans issued	676 605	665 932
Repayment of written off loans	293 364	287 838
Rental income	39 701	24 539
Dividend income	22 732	12 744
Income from sale of repossesed collateral	10 108	32 028
Other income	51 596	69 942
	1 094 106	**1 093 023**

9 Impairment losses

	2016 RUB'000	2015 RUB'000
Loans to customers	3 490 323	7 341 022
Available-for-sale financial assets	(747 572)	1 005 551
Due from banks	2 896 686	-
Investments in associates and other investments	2 300 000	-
Credit related commitments	43 670	-
Net investments in finance leases	3 995	149 478
Other assets	166 875	37 195
	8 153 977	**8 533 246**

10 Personnel expenses

	2016 RUB'000	2015 RUB'000
Employee compensation	2 991 864	2 564 056
Payroll related taxes	831 107	671 855
	3 822 971	**3 235 911**

11 Other general administrative expenses

	2016 RUB'000	2015 RUB'000
Write-off of materials and loss on disposals of assets	410 489	375 901
Depreciation and amortisation	283 478	331 064
Taxes other than income tax	244 465	235 482
Advertising and marketing	217 314	161 130
Repairs and maintenance	210 029	205 173
Communications and information services	195 735	167 191
IT expenses	176 150	149 018
Rent	148 028	149 227
Professional services	89 162	33 334
Security	55 208	50 624
Travel expenses	48 887	50 366
Charity	35 500	2 000
Loss on cease and termination of lease agreements	28 996	22 753
Insurance	18 077	16 238
Agent fee on attraction of clients	1 376	22 147
Other	263 544	373 178
	2 426 438	**2 344 826**

12 Income tax benefit

	2016 RUB'000	2015 RUB'000
Current year tax expense	(88 233)	(35 904)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	551 234	437 118
Change in deferred tax asset, not recognised in the consolidated financial statements	(165 407)	-
Total income tax benefit	**297 594**	**401 214**

In 2016, the applicable tax rate for current and deferred tax is 20% (2015: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2016 RUB'000	%	2015 RUB'000	%
Loss before income tax	**(2 372 333)**		**(1 986 039)**	
Income tax at the applicable tax rate	(474 467)	(20.0)	(397 208)	(20.0)
Other differences	34 984	1.5	8 301	0.4
Change in deferred tax asset, not recognised in the consolidated financial statements	165 407	7.0	-	-
Income taxed at lower tax rates	(23 518)	(1.0)	(12 307)	(0.6)
	(297 594)	**(12.5)**	**(401 214)**	**(20.2)**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets as at 31 December 2016 and assets and liabilities as at 31 December 2015. Net deferred tax assets and liabilities have been recognised in these consolidated financial statements.

The term of use of temporary differences, which decrease the amount of tax base on profit tax and tax losses, doesn't limited by the current tax legislation.

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

RUB'000	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2016
Due from banks	(2 000)	591 791	-	589 791
Available-for-sale financial assets	40 167	74 932	(23 164)	91 935
Held-to-maturity investments	(56 603)	63 790	-	7 187
Derivative financial instruments	26 692	(11 189)	-	15 503
Amounts receivable under reverse repurchase agreements	(2 977)	2 977	-	-
Loans to customers	(512 921)	(109 872)	-	(622 793)
Net investments in finance leases	103 016	62 391	-	165 407
Property, equipment, intangible assets and investment property	(365 059)	18 789	(62 850)	(409 120)

RUB'000	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2016
Investments in associates and other investments	-	474 444	-	474 444
Other assets	107 375	(102 920)	-	4 455
Debt securities issued	1 022	(1 148)	-	(126)
Subordinated borrowings	(8 450)	1 756	-	(6 694)
Other liabilities	6 202	3 263	-	9 465
Tax loss carry-forward	758 299	(517 770)	-	240 529
Deferred tax assets	**94 763**	**551 234**	**(86 014)**	**559 983**
Change in deferred tax asset, not recognised in the consolidated financial statements	-	(165 407)	-	(165 407)
Recognised net deferred tax assets	**94 763**	**385 827**	**(86 014)**	**394 576**
Comprising of:				
Deferred tax asset	103 016			394 576
Deferred tax liability	(8 253)			-

RUB'000	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2015
Due from banks	(414)	(1 586)	-	(2 000)
Available-for-sale financial assets	69 030	77 405	(106 268)	40 167
Held-to-maturity investments	23 186	(79 789)	-	(56 603)
Derivative financial instruments	(7 571)	34 263	-	26 692
Amounts receivable under reverse repurchase agreements	-	(2 977)	-	(2 977)
Loans to customers	(360 488)	(152 433)	-	(512 921)
Net investments in finance leases	73 241	29 775	-	103 016
Property, equipment, intangible assets and investment property	(376 094)	10 116	919	(365 059)
Other assets	33 583	73 792	-	107 375
Debt securities issued	897	125	-	1 022
Subordinated borrowings	(6 637)	(1 813)	-	(8 450)
Other liabilities	620	5 582	-	6 202
Tax loss carry-forward	313 641	444 658	-	758 299
	(237 006)	**437 118**	**(105 349)**	**94 763**
Comprising of:				
Deferred tax asset	76 691			103 016
Deferred tax liability	(313 697)			(8 253)

13 Cash and cash equivalents

	2016 RUB'000	2015 RUB'000
Cash on hand	**3 658 005**	**4 350 070**
Nostro accounts with the CBR	**4 447 001**	**4 717 250**
Nostro accounts with other banks		
- Largest 30 Russian banks	1 598 260	2 325 735
- OECD banks	948 568	1 301 125
- Other Russian banks	152 799	366 067
- Other foreign banks	53 036	80 824
Total nostro accounts with other banks	**2 752 663**	**4 073 751**
Term deposits with the CBR	**500 407**	**2 000 000**
Term deposits with other banks		
- Other Russian banks	-	1 154 710
- Other foreign banks	-	955 376
- OECD banks	-	82 588
Total term deposits with other banks	**-**	**2 192 674**
Total cash and cash equivalents	**11 358 076**	**17 333 745**

As at 31 December 2016, the Group has no banks (except the CBR) (at 31 December 2015 (except the CBR): no banks), whose balances individually exceed 10% of equity.

14 Financial instruments at fair value through profit or loss

	2016 RUB'000	2015 RUB'000
ASSETS		
Held by the Group		
- Promissory notes		
rated below B+	-	348 578
Total promissory notes	**-**	**348 578**
Derivative financial instruments		
Foreign currency and securities contracts	105 132	65 048
	105 132	**65 048**
Total financial instruments at fair value through profit or loss held by the Group	**105 132**	**413 626**
Total financial instruments at fair value through profit or loss	**105 132**	**413 626**
LIABILITIES		
Derivative financial instruments		
Foreign currency and securities contracts	182 650	198 507
	182 650	**198 507**

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

All financial instruments at fair value through profit or loss are classified as held for trading.

None of financial assets at fair value through profit or loss are past due.

During the year ended 31 December 2014 the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale assets. For details on impact of these reclassifications, refer to note 15 “Available-for-sale financial assets” of the consolidated financial statements.

Foreign currency and securities contracts

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

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB’000	2015 RUB’000	2016	2015
Buy USD sell RUB				
Less than 3 months	24 960 148	7 565 913	60.75	73.15
Buy USD sell RUB				
Between 3 to 12 months	-	744 116	-	74.41
Buy USD sell CHF				
Less than 3 months	28 157	811 568	1.02	0.99
Buy USD sell CNY				
Less than 3 months	103 727	-	7.00	-
Buy USD sell JPY				
Less than 3 months	60 442	18 213	1.17	1.20
Buy EUR sell RUB				
Less than 3 months	765 095	199 243	64.40	80.20
Buy EUR sell USD				
Less than 3 months	1 664 780	317 668	1.05	1.09
Buy EUR sell CHF				
Less than 3 months	-	39 849	-	1.08
Buy GBP sell USD				
Less than 3 months	246 564	-	1.23	-
Buy Au sell RUB				
Less than 3 months	2 005 767	-	2 226.81	-
Buy put options JPY/GBP				
Less than 3 months	62 183	-	119.97	-

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	**2015 RUB'000**	**2016**	**2015**
Sell USD buy RUB				
Less than 3 months	22 784 913	12 912 592	60.46	72.63
Sell USD buy JPY				
Less than 3 months	75 622	-	1.17	-
Sell USD buy CHF				
Less than 3 months	17 007	-	1.02	-
Sell USD buy RUB				
Between 3 to 12 months	-	2 317 647	-	73.95
Sell USD buy CNY				
Less than 3 months	397 050	109 519	6.96	6.63
Sell EUR buy RUB				
Less than 3 months	239 292	19 924	64.02	80.71
Sell EUR buy USD				
Less than 3 months	2 018 376	2 430 765	1.05	1.09
Sell GBP buy USD				
Less than 3 months	2 278 606	-	1.25	-
Sell EUR buy USD				
Between 3 to 12 months	-	803 709	-	1.14
Sell CNY buy RUB				
Less than 3 months	-	112 298	-	11.13
Sell CHF buy RUB				
Less than 3 months	-	2 279	-	73.80
Sell put options GBP/ JPY				
Less than 3 months	62 183	-	119.97	-
Sell option call USD/RUB				
Less than 3 months	-	280 864	-	73.28

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	**2015 RUB'000**	**2016**	**2015**
Buy TMK shares sell RUB				
Less than 3 months	-	680	-	61.23
Sell VTB shares buy RUB				
Less than 3 months	-	7 920	-	0.08

15 Available-for-sale financial assets

	2016 RUB'000	**2015 RUB'000**
Held by the Group		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	5 737 578	2 016 282
Regional authorities bonds	601 665	863 420
Russian Government Eurobonds	-	146 754
Foreign Government bonds	-	60 576
Total government and municipal bonds	**6 339 243**	**3 087 032**
- Corporate bonds		
rated from BB- to BBB+	4 938 441	12 897 900
banks with revoked license (refer to note 30)	1 133 849	1 005 551
rated B+ and below	714 815	718 153
not rated	-	89 399
Total corporate bonds	**6 787 105**	**14 711 003**
- Corporate shares		
rated from BB- to BBB+	-	426 408
rated B+ and below	1 028 519	15 250
not rated	2 377 648	14 021
Total corporate shares	**3 406 167**	**455 679**
Total available-for-sale financial instruments held by Group	**16 532 515**	**18 253 714**
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	101 490	-
Total government and municipal bonds	**101 490**	**-**
- Corporate bonds		
rated from BB- to BBB+	1 285 464	2 240 143
rated B+ and below	-	1 018 414
Total corporate bonds	**1 285 464**	**3 258 557**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**1 386 954**	**3 258 557**
Total gross available-for-sale financial instruments	**17 919 469**	**21 512 271**
Impairment allowance	(257 979)	(1 005 551)
Net available-for-sale financial instruments	**17 661 490**	**20 506 720**

Movements in the impairment allowance are as follows:

	2016 RUB'000	2015 RUB'000
Balance of the impairment allowance at the beginning of the year	1 005 551	-
Net (reversal) charge of the impairment allowance	(747 572)	1 005 551
Balance of the impairment allowance at the end of the year	**257 979**	**1 005 551**

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

Available-for-sale financial assets stated at cost comprise unquoted securities for the amount of RUB 1 255 982 thousand. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry. However, management of the Group believes it unlikely that the fair value at the year-end would differ significantly from that carrying amount.

Reclassifications out of securities held for trading

The substantial falls in the securities markets in Russia commencing October 2014 and the subsequent lack of liquidity in the market peaking up period after 15 December 2014 (when the CBR increased key rate from 12% to 17%), meaning the Group was either unable to sell certain securities or sell them at what they believe is a reasonable price, a situation constituted rare circumstances that permit reclassification out of the trading category. Thus the Group decided to perform reclassifications of trading securities with carrying value RUB 5 129 649 thousand to available-for-sale financial assets.

The reclassifications were made with effect from 16 December 2014 at fair value at this date. The table below shows carrying and fair value of reclassified securities as at reporting dates:

	Carrying value of reclassified securities as at 31 December 2016 RUB'000	Fair value of reclassified securities as 31 December 2016 RUB'000	Carrying value of reclassified securities as at 31 December 2015 RUB'000	Fair value of reclassified securities as at 31 December 2015 RUB'000
Securities held for trading reclassified to available-for-sale financial assets	-	-	863 211	863 211

The table below shows the amounts actually recognised in consolidated statement of profit or loss and other comprehensive income for the year 2016 in respect of securities reclassified out of securities held for trading:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Securities held for trading reclassified to available-for-sale financial assets:		
Interest income	65 530	-
Net gain on financial instruments at fair value through profit or loss and on available-for-sale financial assets	1 106	-
Revaluation reverve for available-for-sale financial assets	-	(7 481)

The table below shows the amounts actually recognised in consolidated statement of profit or loss and other comprehensive income for the year then ended 31 December 2015 in respect of securities reclassified out of securities held for trading:

	Profit or loss	**Other comprehensive income**
	RUB’000	**RUB’000**
Securities held for trading reclassified to available-for-sale financial assets:		
Interest income	404 115	-
Net gain on financial instruments at fair value through profit or loss and on available-for-sale financial assets	4 682	-
Revaluation reverve for available-for-sale financial assets	-	61 153

The table below sets out the amounts that would have been recognised during 2016 if the reclassifications had not been made:

	Profit or loss
	RUB’000
Securities held for trading reclassified to available-for-sale financial assets:	
Interest income	52 611
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets	6 544

The table below sets out the amounts that would have been recognised in the period following reclassifications during 2015 if the reclassifications had not been made:

	Profit or loss
	RUB’000
Securities held for trading reclassified to available-for-sale financial assets:	
Interest income	338 278
Net loss on financial instruments at fair value through profit or loss and on available-for-sale financial assets	137 951

The effective interest rates on trading securities reclassified to available-for-sale assets with expected recoverable cash flows as at the date of reclassification are presented below:

	Effective interest rate	**Expected cash flows**
	%	**RUB’000**
Securities held for trading reclassified to available-for-sale financial assets	9.72%	5 658 922

During the year ended 31 December 2014 the Group reclassified certain financial assets out of available-for-sale assets into held-to-maturity investments. For details on impact of these reclassifications, refer to note 21 “Held-to-maturity investments” of the consolidated financial statements.

16 Due from banks

	2016 RUB'000	2015 RUB'000
Due from PJSC "M2M Private Bank" (refer to note 41)	**6 578 892**	**-**
Other amounts due from banks	**22 623**	**3 325**
Term deposits		
- Other foreign banks	-	448 018
- Largest 30 Russian banks	156	155
- OECD banks	-	265 524
Total term deposits	**156**	**713 697**
Total due from banks	**6 601 671**	**717 022**
Impairment allowance	(2 896 686)	-
Total due from banks after impairment allowance	**3 704 985**	**717 022**

17 Amounts receivable under reverse repurchase agreements

As at 31 December 2016 the Group does not have receivables under reverse repurchase agreements.

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2015:

	Government and municipal bonds RUB'000	Corporate bonds RUB'000	Corporate shares and mutual funds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements				
- Other Russian companies	-	663 458	2 302 029	2 965 487
- Largest 30 Russian banks	132 509	3 596 229	2 312 087	6 040 825
- Other Russian banks	-	401 796	208 915	610 711
	132 509	**4 661 483**	**4 823 031**	**9 617 023**

At 31 December 2015, the fair value of securities collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is RUB 11 339 015 thousand.

None of amounts receivable under reverse repurchase agreements are past due or impaired.

18 Loans to customers

	2016 RUB'000	2015 RUB'000
Loans to corporate customers	**36 597 723**	**38 910 840**
Loans to retail customers		
Consumer loans	43 750 998	48 407 227
Mortgage loans	5 722 920	6 693 989
Total loans to retail customers	**49 473 918**	**55 101 216**
Gross loans to customers	**86 071 641**	**94 012 056**
Impairment allowance	(17 083 236)	(19 097 355)
Net loans to customers	**68 988 405**	**74 914 701**

Interest accrued on impaired loans in 2016 amounted to RUB 1 198 951 thousand (2015: RUB 1 307 278 thousand).

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance of the impairment allowance at the beginning of the year	**2 905 598**	**16 191 757**	**19 097 355**
Net charge	458 466	3 031 857	3 490 323
Write-offs	(129 868)	(5 374 574)	(5 504 442)
Balance of the impairment allowance at the end of the year	**3 234 196**	**13 849 040**	**17 083 236**

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance of the impairment allowance at the beginning of the year	**1 361 740**	**11 766 198**	**13 127 938**
Net charge	1 709 719	5 631 303	7 341 022
Write-offs	(165 861)	(1 205 744)	(1 371 605)
Balance of the impairment allowance at the end of the year	**2 905 598**	**16 191 757**	**19 097 355**

Credit quality of loans to customers

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

	2016 RUB'000	2015 RUB'000
Loans to corporate customers		
Loans without individual signs of impairment	33 015 948	35 612 707
Impaired loans:		
- not overdue	66 950	-
- overdue less than 90 days	482 776	450 534
- overdue more than 90 days and less than 1 year	617 018	1 721 396
- overdue more than 1 year	2 415 031	1 126 203
Total impaired loans	3 581 775	3 298 133
Total gross loans to corporate customers	**36 597 723**	**38 910 840**
Impairment allowance	(3 234 196)	(2 905 598)
Net loans to corporate customers	**33 363 527**	**36 005 242**

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

	Consumer loans	Mortgage loans	Total loans to retail customers
	RUB'000	RUB'000	RUB'000
Loans to retail customers			
- not overdue	26 200 205	5 227 499	31 427 704
- overdue less than 30 days	973 799	74 399	1 048 198
- overdue 30-90 days	1 031 231	73 737	1 104 968
- overdue 90-180 days	1 339 376	111 558	1 450 934
- overdue more than 180 days	14 206 387	235 727	14 442 114
Total gross loans to retail customers	**43 750 998**	**5 722 920**	**49 473 918**
Impairment allowance	(13 675 116)	(173 924)	(13 849 040)
Net loans to retail customers	**30 075 882**	**5 548 996**	**35 624 878**

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

	Consumer loans	Mortgage loans	Total loans to retail customers
	RUB'000	RUB'000	RUB'000
Loans to retail customers			
- not overdue	27 314 363	6 256 474	33 570 837
- overdue less than 30 days	1 379 729	66 624	1 446 353
- overdue 30-90 days	1 552 067	87 402	1 639 469
- overdue 90-180 days	1 808 230	72 920	1 881 150
- overdue more than 180 days	16 352 838	210 569	16 563 407
Total gross loans to retail customers	**48 407 227**	**6 693 989**	**55 101 216**
Impairment allowance	(16 174 756)	(17 001)	(16 191 757)
Net loans to retail customers	**32 232 471**	**6 676 988**	**38 909 459**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for significant impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified or not significant impaired loans.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows represented by different types, mainly real estate. Valuations for real estate have been discounted to reflect current market conditions and costs to sell
- loss given default rate for unsecured loans is 75%.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2016 would be RUB 333 635 thousand lower/higher (31 December 2015: RUB 360 052 thousand).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 36 months
- the historic actual recovery rate of loans overdue 364 - 393 days for past 18 months has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2016 would be RUB 1 068 746 thousand lower/higher (31 December 2015: RUB 1 167 284 thousand).

Analysis of collateral

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2016 RUB'000	**% of loan portfolio**	**2015 RUB'000**	**% of loan portfolio**
Real estate	15 822 534	47.42	16 269 645	45.20
Motor vehicles	2 811 958	8.43	2 981 683	8.28
Corporate and personal guarantees	1 299 617	3.90	1 476 076	4.10
Goods in turnover	592 354	1.78	790 213	2.20
Equipment	312 026	0.93	170 390	0.47
Cash balances	51 140	0.15	828 880	2.30
Securities	45 776	0.14	16 007	0.04
Promissory notes issued by the Bank	-	-	5 168	0.01
Other collateral	163 729	0.49	540 080	1.50
No collateral	12 264 393	36.76	12 927 100	35.90
	33 363 527	**100.00**	**36 005 242**	**100.00**

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the collateral.

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired or past due

Loans with individual signs of impairment or past due with net carrying value of RUB 697 643 thousand (31 December 2015: RUB 975 283 thousand) are secured by collateral (mainly real estate) with fair value of RUB 646 692 thousand (31 December 2015: RUB 951 690 thousand), excluding the effect of over collateralisation.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Repossessed collateral

During the year ended 31 December 2016, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 270 515 thousand (2015: RUB 43 205 thousand). As at 31 December, the repossessed collateral comprise:

	2016 RUB'000	**2015 RUB'000**
Real estate	247 680	35 163
Other assets	5 813	7 210
Total repossessed collateral	**253 493**	**42 373**

The Group's policy is to sell these assets as soon as it is practicable.

Asset securitisation

As at 31 December 2016, the Group transferred mortgage loans of RUB 2 942 101 thousand (31 December 2015: RUB 3 384 127 thousand) to MA APB, MA APB 2, LLC SFC APB 2 entities that are, in substance, controlled by the Group. All obligations issued by LLC SFC APB 2 were repurchased by the Bank in the amount of RUB 1 390 000 thousand. Accordingly, MA APB, MA APB 2 and LLC SFC APB 2 are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans serve as collateral for secured mortgage backed securities issued by the Group. As at 31 December 2016, the carrying amount of liabilities on these securities is RUB 1 800 347 thousand (31 December 2015: RUB 2 389 417 thousand).

Industry and geographical analysis of the loan portfolio

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

	2016 RUB'000	2015 RUB'000
Wholesale and retail trade	7 900 148	8 772 996
Services	7 252 451	8 082 268
Investment activities and real estate	4 686 705	6 240 104
Construction	3 815 928	2 795 286
Production	1 960 951	1 195 499
Mining	1 712 906	2 751 286
Fishery	449 874	1 155 018
Other	8 818 760	7 918 383
Individuals	49 473 918	55 101 216
	86 071 641	**94 012 056**
Impairment allowance	(17 083 236)	(19 097 355)
	68 988 405	**74 914 701**

Significant credit exposures

As at 31 December 2016, the Group has two groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2015: two groups of connected borrowers). The carrying value of these balances as at 31 December 2016 is RUB 7 951 472 thousand (2015: RUB 10 195 112 thousand).

For maturity analysis refer to note 32.

19 Net investments in finance leases

Net investments in finance leases comprise:

	2016 RUB'000	2015 RUB'000
Gross investments in finance leases	1 960 108	1 900 879
Unearned finance lease income	(411 143)	(245 511)
	1 548 965	**1 655 368**
Impairment allowance	(259 052)	(261 511)
Net investments in finance leases	**1 289 913**	**1 393 857**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Future minimum lease payments to be received are disclosed below:

	2016 RUB'000	2015 RUB'000
Overdue and within 1 year	1 182 285	1 456 338
From 1 to 5 years	777 823	444 541
Minimum lease payments receivable	**1 960 108**	**1 900 879**

Gross investment in leases is receivable in the following currencies:

	2016 RUB'000	2015 RUB'000
RUB	1 937 923	1 653 483
USD	22 185	247 396
Gross investments in finance leases	**1 960 108**	**1 900 879**

The following table provides information on the credit quality of net investments in finance leases as at 31 December 2016 and 2015:

	2016 RUB'000	2015 RUB'000
Not overdue and overdue less than 90 days	1 254 440	1 103 387
Overdue more than 90 days and less than 180 days	12 189	51 839
Overdue more than 180 days	282 336	500 142
	1 548 965	**1 655 368**
Less allowance for impairment	(259 052)	(261 511)
Net investments in finance leases	**1 289 913**	**1 393 857**

Movements in the impairment allowance are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the year	261 511	149 251
Net charge	3 995	149 478
Write-offs	(6 454)	(37 218)
Balance at the end of the year	**259 052**	**261 511**

20 Investments in associates and other investments

Associates and other investments comprise the following:

			Ownership %		2016	2015
Name	**Country of incorporation**	**Main activity**	**2016**	**2015**	**Carrying value RUB'000**	**Carrying value RUB'000**
PJSC "M2M Private Bank" (refer to note 41)	Russian Federation	Banking	100%	25%	2 300 000	575 000
CUIF "Celena"	Russian Federation	Unit investment fund	40.99%	-	121 818	-
Impairment allowance					(2 300 000)	-
					121 818	**575 000**

The following table summarises the financial information of CUIF “Celena” as at 31 December 2016 and for 2016 year and reconciliation of carrying amount of the Group’s interest in associate:

	2016 RUB’000
Total assets	338 293
Total liabilities	(41 099)
Net assets	297 194
Group’s share of net assets (40.99%)	**121 818**

	2016 RUB’000
Net loss for the year	(47 847)
Total comprehensive loss for the year	**(47 847)**

21 Held-to-maturity investments

	2016 RUB’000	**2015 RUB’000**
Held by the Group		
Government and municipal bonds		
Regional authorities bonds	243 451	132 559
Total government and municipal bonds	**243 451**	**132 559**
Corporate bonds		
rated from BB- to BBB+	801 823	970 588
Total corporate bonds	**801 823**	**970 588**
Total held-to-maturity investments held by Group	**1 045 274**	**1 103 147**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Regional authorities bonds	-	342 495
Total government and municipal bonds	**-**	**342 495**
Corporate bonds		
rated from BB- to BBB+	2 586 706	5 589 420
Total corporate bonds	**2 586 706**	**5 589 420**
Total held-to-maturity investments pledged under sale and repurchase agreements	**2 586 706**	**5 931 915**
Total held-to-maturity investments	**3 631 980**	**7 035 062**

Ratings of corporate entities are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

None of held-to-maturity investments are past due or impaired.

Reclassifications out of of available-for-sale financial assets

In accordance with IAS 39 the Group reclassified certain securities out of available-for-sale financial assets to held-to-maturity investments as a result of a change in intention to hold these securities until maturity.

The reclassifications were made with effect in October 2014 and December 2014 at fair value at these dates:

Date of reclassification	Carrying value of reclassified securities as at date of reclassification RUB'000	Fair value of reclassified securities as at date of reclassification RUB'000
28 October 2014	2 680 256	2 680 256
5 December 2014	591 225	591 225
8 December 2014	172 255	172 255
16 December 2014	1 522 810	1 522 810
31 December 2014	454	454

The table below shows carrying and fair value of reclassified securities as at reporting dates:

Date of reclassification	Carrying value of reclassified securities as at 31 December 2016 RUB'000	Fair value of reclassified securities as at 31 December 2016 RUB'000	Carrying value of reclassified securities as at 31 December 2015 RUB'000	Fair value of reclassified securities as at 31 December 2015 RUB'000
28 October 2014	2 564 514	2 583 790	2 730 285	2 676 862
5 December 2014	91 586	93 463	256 600	257 902
8 December 2014	43 707	44 176	108 613	108 266
16 December 2014	-	-	1 298 851	1 311 816
31 December 2014	-	-	498	506

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2016 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss RUB'000
Available-for-sale securities reclassified to held-to-maturity investments:	
Interest income	289 653

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2015 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss RUB'000
Available-for-sale securities reclassified to held-to-maturity investments:	
Interest income	447 862

The table below sets out the amounts that would have been recognised during 2016 if the reclassifications had not been made:

	Profit or loss	Other comprehensive income
	RUB'000	RUB'000
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	289 028	-
Revaluation reserve for available-for-sale financial assets	-	124 885

The table below sets out the amounts that would have been recognised during 2015 if the reclassifications had not been made:

	Profit or loss	Other comprehensive income
	RUB'000	RUB'000
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	447 862	-
Revaluation reserve for available-for-sale financial assets	-	561 119

The effective interest rates on available-for-sale securities reclassified to held-to-maturity investments with expected recoverable cash flows as at the date of reclassification are presented below:

Date of reclassification	Effective interest rate	Expected cash flows
	%	RUB'000
28 October 2014	8.02%	3 314 172
5 December 2014	8.77%	825 392
8 December 2014	9.75%	226 624
16 December 2014	7.89%	2 244 101
31 December 2014	8.50%	564

22 Transfers of financial assets

(a) Transferred financial assets, that are not derecognised in their entirety

The securities sold under agreements to repurchase as at 31 December 2016 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to-maturity investments
Carrying amount of assets	1 386 954	2 586 706
Carrying amount of associated liabilities	1 299 350	2 406 830

The securities sold under agreements to repurchase as at 31 December 2015 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to-maturity investments
Carrying amount of assets	3 258 557	5 931 915
Carrying amount of associated liabilities	2 733 477	5 427 409

The Group has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 15 and 21 and as repledged securities received under reverse repurchase agreements in note 17. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (note 26).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(b) Transferred financial assets with continuing involvement

Securitisations

As part of securitisation transaction with unconsolidated structured entity (for details refer to note 34) the Group transferred mortgage loans and neither transferred nor retained substantially all the risks and rewards of ownership of the loans. The Group recognises its continuing involvement in mortgage loans in the amount of the issued lower tranche of bonds by unconsolidated structured entity.

The Group also retains servicing rights in respect of the transferred mortgage loans. Under the servicing arrangements the Group collects cash flows on the transferred mortgage loans on behalf of the unconsolidated structured entity. In return, the Group receives a fee that is expected to compensate the Group adequately for performing the servicing of the related assets. Consequently, the Group accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability.

Mortgage loans transferred were classified as loans to customers and measured at amortised cost with a total carrying amount of RUB 2 300 027 thousand at the date of transfer. As at 31 December 2016, the value of the loans that the Group still services amounts to RUB 1 878 189 thousand (31 December 2015: RUB 2 191 797 thousand).

During the year ended 31 December 2016, the Group recognised income of RUB 15 887 thousand in respect of servicing transferred mortgage loans (2015: RUB 5 628 thousand).

23 Property, equipment, intangible assets and investment property

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2016	4 602 441	595 364	10 885	69 266	589 724	95 268	5 962 948
Additions and transfers	109 955	14 648	74 216	13 408	176 832	883 695	1 272 754
Disposals and transfers	(49 287)	(8 274)	(2 415)	(6 152)	(17 638)	(95 268)	(179 034)
Revaluation	(67 013)	-	-	-	-	-	(67 013)
Balance at 31 December 2016	**4 596 096**	**601 738**	**82 686**	**76 522**	**748 918**	**883 695**	**6 989 655**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2016	269 537	315 892	5 740	42 506	230 120	-	863 795
Depreciation and amortisation for the year	135 021	95 283	2 011	10 066	41 097	-	283 478
Disposals	(2 704)	(7 699)	(112)	(5 991)	(996)	-	(17 502)
Revaluation	(396 401)	-	-	-	-	-	(396 401)
Balance at 31 December 2016	**5 453**	**403 476**	**7 639**	**46 581**	**270 221**	**-**	**733 370**
Carrying amounts							
At 31 December 2016	**4 590 643**	**198 262**	**75 047**	**29 941**	**478 697**	**883 695**	**6 256 285**
At 31 December 2015	**4 332 904**	**279 472**	**5 145**	**26 760**	**359 604**	**95 268**	**5 099 153**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2016 (2015: nil).

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2015	4 543 635	858 878	19 329	60 497	505 518	45 358	6 033 215
Additions and transfers	87 749	65 081	797	10 907	119 132	95 268	378 934
Disposals and transfers	(33 620)	(328 595)	(9 241)	(2 138)	(34 926)	(45 358)	(453 878)
Transfers from investment property	4 677	-	-	-	-	-	4 677
Balance at 31 December 2015	**4 602 441**	**595 364**	**10 885**	**69 266**	**589 724**	**95 268**	**5 962 948**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2015	138 630	506 720	12 658	34 862	188 448	-	881 318
Depreciation and amortisation for the year	132 518	110 568	2 017	9 363	76 598	-	331 064
Disposals	(1 611)	(301 396)	(8 935)	(1 719)	(34 926)	-	(348 587)
Balance at 31 December 2015	**269 537**	**315 892**	**5 740**	**42 506**	**230 120**	**-**	**863 795**
Carrying amounts							
At 31 December 2015	**4 332 904**	**279 472**	**5 145**	**26 760**	**359 604**	**95 268**	**5 099 153**
At 31 December 2014	**4 405 005**	**352 158**	**6 671**	**25 635**	**317 070**	**45 358**	**5 151 897**

Investment property

	2016 RUB'000	2015 RUB'000
Balance at 1 January	38 600	44 123
Additions	379 300	-
Transfer to property, equipment and intangible assets	(38 568)	(4 677)
Fair value revaluation	498	(846)
Balance at 31 December	**379 830**	**38 600**

The investment property is represented by land and buildings.

Revalued assets

At 31 December 2016, buildings were revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50% / 50% basis.

The market approach is based upon an analysis of the results of comparable sales/offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

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

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties' rental rates
- the vacancy rate from 0% to 10% was defined on the individual basis taking into account qualitative and quantitative parameters, including location, total square, state and level of market development and competition
- the capitalisation rate is applied depending on the population size of each individual populated area, where the object of evaluation is located and varies from 15% (for cities with population less 150 thousand people) to 12% (for cities with population above 500 thousand people). For the office building located in Moscow, the capitalisation rate of 10.5% was assumed based on the Appraiser's internal research (S.A.Ricci).

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

Fair value measurement of buildings is categorised as Level 3 in the fair value hierarchy.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2016 would be RUB 136 470 thousand higher/lower (31 December 2015: RUB 129 987 thousand).

The carrying value of buildings as at 31 December 2016, if the buildings would not have been revalued, would be RUB 2 368 683 thousand (31 December 2015: RUB 2 359 620 thousand).

Fair value measurement of investment property is categorised as Level 3 in the fair value hierarchy.

Rental income from investment property for the year ended 31 December 2016 comprised RUB 70 thousand (2015: RUB 1 786 thousand).

The amount of direct operating expenses for investment property for 2016 and 2015 were not material.

24 Other assets

	2016 RUB'000	2015 RUB'000
Settlements on purchase of shares	-	2 162 296
Continuing involvement with sold loan portfolio	563 048	563 048
Guarantee deposits	413 153	154 875
Commemorative coins	114 238	-
Outstanding settlements with payment infrastructure sevices and cash transfers operators	104 191	153 916
Other receivables	255 021	129 310
Total other financial assets	**1 449 651**	**3 163 445**
Prepayments	1 400 323	968 203
Advances on precious metals delivery	1 103 326	79 647
Settlements on claims	327 716	281 975
Assets held for sale	325 646	84 109
VAT payable	187 741	10 635
Prepayments for assets to be leased under finance lease	133 738	51 572
Materials and supplies	47 261	36 911
Current income tax	30 968	37 117
Other	97 272	77 882
Total other non-financial assets	**3 653 991**	**1 628 051**
Total other assets	**5 103 642**	**4 791 496**
Impairment allowance	(175 187)	(108 530)
Total other assets net of impairment allowance	**4 928 455**	**4 682 966**

Movements in the impairment allowance are as follows:

	2016 RUB'000	2015 RUB'000
Balance of the impairment allowance at the beginning of the year	108 530	75 560
Net charge	166 875	37 195
Write-offs	(100 218)	(4 225)
Balance of the impairment allowance at the end of the year	**175 187**	**108 530**

For details on continuing involvement with sold loan portfolio please refer to note 34.

25 Deposits and balances from banks

	2016 RUB'000	2015 RUB'000
Vostro accounts	170 338	421 996
Term deposits from banks	2 174 605	3 550 110
	2 344 943	**3 972 106**

As at 31 December 2016, the Group has no groups of connected or related borrowers whose balances individually exceed 10% of equity (31 December 2015: one counterparty). The gross value of these balances as at 31 December 2015 is RUB 1 780 700 thousand.

Covenants

As at 31 December 2016, the Group has term deposits from one of the banks amounting to RUB 863 345 thousand (31 December 2015: RUB 1 780 700 thousand). According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Bank should comply with all ratios of the CBR and N1.0 statutory ratio should be not less than 10.2%.

As at 31 December 2016 N1.0 statutory ratio comprised 9.82%. As at 31 December 2015, the Group did not breach any covenants described above. In March 2017 the Group made early debt repayment in full per all agreements, described above.

26 Amounts payable under repurchase agreements

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2016:

RUB'000	Government and municipal bonds	Corporate bonds	Total
Amounts payable under direct repo agreements			
- Largest 30 Russian banks	96 228	3 609 952	3 706 180
	96 228	**3 609 952**	**3 706 180**

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2015:

RUB'000	Corporate bonds	Total
Amounts payable under direct repo agreements		
- The CBR	6 374 465	6 374 465
- Largest 30 Russian banks	1 786 421	1 786 421
	8 160 886	**8 160 886**

Fair value of securities transferred under repo agreements as at 31 December 2016 comprised RUB 3 986 557 thousand (31 December 2015: RUB 9 179 993 thousand). For details, please, refer to note 22.

27 Current accounts and deposits from customers

	2016 RUB'000	2015 RUB'000
Current accounts and demand deposits		
- Retail	4 699 685	4 679 390
- Corporate	12 958 449	11 152 065
Term deposits		
- Retail	65 927 678	69 531 129
- Corporate	6 767 682	18 664 281
	90 353 494	**104 026 865**

As at 31 December 2016, the Group has no groups of connected customers (31 December 2015: one group of connected customers), whose balances individually exceed 10% of equity. The amount owned as at 31 December 2015 comprised RUB 3 174 025 thousand.

28 Debt securities issued

	2016 RUB'000	2015 RUB'000
Bonds	1 800 347	4 058 906
Promissory notes	155 901	625 652
	1 956 248	**4 684 558**

As at 31 December 2016 bonds are presented by two issues of MA APB and MA APB 2.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature not later than 26 April 2045 with partially repayments each quarter.

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9%. These securities mature not later than 1 October 2046 with partially repayments each quarter.

On 19 February 2016, the Group repaid RUB 1 119 621 thousand of bonds issued in February 2013 with the total initial amount of RUB 3 000 000 thousand according to the terms of maturity.

29 Subordinated borrowings

	2016 RUB'000	2015 RUB'000
Subordinated loan	4 488 287	5 385 283
	4 488 287	**5 385 283**

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 million from one of the Bank's shareholders - IFC. The loan with interest rate 12.92% as at 31 December 2016 mature by tranches until 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants. As at 31 December 2014 and later the Group breached financial covenants that led to the increase of interest rate on the agreement in 2015 year. Subordinated debt is not payable on demand as at 31 December 2016 and 31 December 2015.

On 10 July 2014, the Group issued subordinated Loan Participation Notes in the amount of USD 42 million for 5.5 years with interest rate of 11.00% through SCI Finance B.V., partially consolidated structured entity incorporated in the Netherlands. This entity was partially consolidated because portion of the entity is a deemed separate entity which is in substance "ring-fenced" from the rest of the entity, and the Group has control over deemed separate entity. The Group consolidated only those assets and returns related to the issue of Loan Participation Notes.

30 Other liabilities

	2016 RUB'000	2015 RUB'000
Obligation to NKO JSC "NRD"	1 060 490	-
Payables to employees	339 378	195 406
Payables to Deposit Insurance Agency on deposit insurance	294 109	-
Advances from lessees received	203 981	100 391
Other taxes payable	165 880	83 238
Deferred commission and provision on guarantees issued	81 716	97 373
Payables to creditors	57 619	61 352
Current taxes payables	21 488	4 214
Payables per cession agreements	10 441	76 762
Other liabilities	185 051	117 750
	2 420 153	**736 486**

As at 31 December 2016 the Group recognises in the consolidated financial statements the bonds of LLC "Vneshprombank" in the amount of RUB 1 billion, received in the result of exchange for the bonds of the Bank in the same amount. Due to default of LLC "Vneshprombank" and revocation of banking license on 21 January 2016, the Group initiated the termination of the deal in the court. As of today the decision of the court came into fource, but due to refusal of LLC "Vneshprombank" to execute the court decision and its appealing to the Supreme Court of the Russian Federation, the depositary (NKO JSC "NRD") has no technical ability to make a reverse exchange of the bonds. In this regard, other liabilities of the Group include the liability to repay owned bonds, at the same time cash relating to this obligation has been receieved. The above uncertainty should be resolved after the hearing of case in the Supreme Court of the Russian Federation.

31 Share capital

Issued capital

Movements in share capital for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Shares (thousands)	Nominal amount, RUB'000	Inflation adjustment, RUB'000	Total, RUB'000
Balance as at 1 January 2015	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 1 January 2016	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 31 December 2016	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**

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

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

32 Corporate governance, internal control and risk management

(a) Corporate governance framework

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

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

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

As at 31 December 2016, the Board of Directors includes:

- Vdovin Andrey Vadimovich – Chairman of the Board of Directors
- Van der Plas Marc
- Jacobs Margo
- Dosmukhamedov Rinat Mingalievich
- Murichev Alexander Vasiljevich
- Novikov Andrey Valentinovich
- Safonov Oleg Alexandrovich.

During the year ended 31 December 2016 the following changes occurred in composition of the Board of Directors: Golubev Sergey Alexsandrovich, Shlyahovoy Andrey Zakharovich left the Board of Directors, Dosmukhamedov Rinat Mingalievich joined the Board.

On 3 March 2017, according to the Decision of the Extraordinary meeting of the shareholders of the Bank, the Board of Directors was formed as follows:

- Dosmukhamedov Rinat Mingalievich– Chairman of the Board of Directors
- Van der Plas Marc
- Jacobs Margo
- Kostikov Alexey Nikolaevich
- Kotkov Oleg Grigorjevich
- Kulikov Alexey Albertovich.

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

As at 31 December 2016, the Management Board includes:

- Novikov Andrey Valentinovich- Chairman of the Management Board
- Andryushkin Vyacheslav Jurjevich
- Zilberblum Igor Mihailovich
- Makarov Dmitry Nikolaevich
- Pavlov Mikhail Germanovich
- Chekonova Tatiana Alexeevna
- Chavtur Andrey Vladimirovich.

Till 18 April 2016 responsibilities of the Chairman of the Management Board were executed by Vdovin Andrey Vadimovich, starting from 19 April 2016 Novikov Andrey Valentinovich was appointed as Chairman of the Management Board by the decision of the Board of Directors. On 10 March 2017, according to the decision of the Board of Directors, Novikov Andrey Valentinovich left the Management Board, and Makarov Dmitry Nikolaevich was appointed as Acting Chairman of the Management Board.

(b) Internal control policies and procedures

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

The purpose of internal controls is to ensure:

- efficiency and effectiveness of the financial and economic activity in performing banking operations and other transactions, efficiency of assets and liabilities management, including the preservation of assets and management of banking risks

- reliability, completeness, objectivity and timeliness of the preparation and issuance of financial, accounting, statistical and other statements (for internal and external users), as well as informational security in the information sphere, which represents the variety of information, information infrastructure, persons (performing collection), forming, distribution and use of information, as well as the systems of the arising relationships regulation

- compliance with laws and regulations, standards of self-regulating organisations (for professional participants of the security market), foundation and internal documents

- prevention of fraudulent or illegal activities of the Group and its employees, including legalisation (the laundering) of income, received in the result of fraudulent or illegal activities, and financing terrorism, as well as timely submission of information in accordance with the legislation of Russian Federation to state governing authorities and the CBR.

Management is responsible for the development and implementation of the effective internal control system, implementation of the strategy and policy of the Group relating to the organisation and functioning of the internal control, identification and evaluation of risks, approval of documentation on organising the internal control system and monitoring internal control system. Management monitors the effectiveness of the Group's internal controls and periodically modifies existing controls as considered necessary.

The internal control system includes the following areas.

I. Control by the management bodies over organisation of the Group's functioning.

II. Control over the functioning of the banking risks management system and assessment of banking risks.

III. Control over disaggregation of authorities in the process of banking operations and other deals performing.

Disaggregation of authorities between divisions and employees during the process of performing banking operations and other deals is set by the internal documents of the Bank and includes such forms (means) of control as:

- inspections, carried out by the management bodies in the form of reports and information about the results of divisions' activities, explanations by the divisional heads with the aim of lacks of controls identification, violations, mistakes

- control, carried out by the divisional heads, in the form of reports inspections on the work of subordinates (on a daily, weekly or monthly basis)

- material (physical) control, carried out by checks of access restrictions to inventory, by the inventory of tangible assets (cash, securities in the documentary form, etc.), the disaggregation of duties for the storage and use of tangible assets, security of premises for tangible assets storage

- the check of established limits on conducting of banking operations and other transactions by the receiving of relevant reports and reconciliation with the primary supporting documents

- the system of confirmation (approval) of operations (transactions) and disaggregation of authorities over the banking operations and other transactions, exceeding the set limits, prescribing the appropriate timely notification the relevant managers of the Bank (its divisions) on such operations (transactions) or the current situation and its proper recording in the accounting and financial statements

- the check of compliance with the order of execution (procedures) of banking operations and other transactions, reconciliation of accounts, informing of relevant management bodies (its divisions) about the revealed breaches, mistakes and drawbacks.

Disaggregation of duties of the Bank's employees is in place to exclude conflicts of interests (the contradiction between material and other interests of the Bank and (or) its employees and (or) clients, which can lead to the unfavourable consequences to the Bank and (or) its clients) and the conditions of its origin, committing crimes and the implementation of other illegal actions in the process of conducting banking operations and other transactions, as well as the providing to the same division or employee the right of:

- to conduct banking operations and other transactions and to register them and (or) to make accounting records

- to authorise cash payments and to make factual payments

- to conduct operations by the accounts of the Bank's clients and accounts, reflecting own financial and economic activity of the Bank

- to render consulting and information services to the clients of the Bank and perform operations with the same clients

- to assess the reliability and completeness of documents, presented for loan issue and to perform monitoring of the financial statement of the borrower

- to perform actions in any other areas, where the conflict of interest can arise.

IV. The control over the information flows management (receipt and transfer of information) and ensuring of information security.

Internal control over automated information systems and technical means consists of general control and application control.

General control of automated information systems covers the control over computer systems (control over the host computer, the client-server system and end-user workstations, etc.), conducted to ensure uninterrupted and ongoing operation.

General control consists of the backup (copying) of data procedures and restoring of automated information systems procedures implemented by the Bank, providing support during the automated information systems time of use, including establishing rules for the acquisition, development and service (maintenance) of software, the procedure for monitoring the safety of physical access.

Application control is implemented by automated procedures built into the application programs, as well as by manual procedures controlling the processing of banking operations and other transactions (control editing, monitoring of logic access, internal procedures for data backup and recovery, etc.).

The Bank establishes rules for managing information activities, including the procedure for protection against unauthorised access and distribution of confidential information, as well as against the use of confidential information for personal purposes.

V. Continuous monitoring of the internal control system functioning in order to assess the level of its compliance with the objectives of the Group's activities, identifying gaps, developing proposals and monitoring the implementation of decisions to improve the internal control system.

The Group has developed a system of regulations, policies and procedures to ensure that operations are properly performed and that relevant legislative and regulatory requirements are met.

Internal control is exercised in accordance with the powers defined by the constituent and internal documents of the Bank:

- management bodies of the Bank (general shareholders' meeting, the Board of Directors, including the Assets and Liabilities Management Committee ("ALMC"), the Management Board, the Chairman of the Management Board)

- revision committee

- chief accountant (his deputies) of the Bank

- heads (their deputies) and chief accountants (their deputies) of the Bank's branches

- divisions and employees performing internal control in accordance with the powers defined by internal documents of the Bank, including:

- the Internal audit service

- the Internal control service

- employee responsible for counteraction the legalisation (anti-money laundering) of proceeds from crime and financing of terrorism

- professional securities market participant controller

- other structural units and (or) responsible employees, depending on the nature and scale of operations, the level and combination of risks.

The Internal audit service performs the audit and evaluation of the effectiveness of the Bank's internal control system as a whole. The Internal audit service is independent of the Management Board of the Bank and is subordinated to the Board of Directors. The results of the Internal audit service checks are discussed with the heads of departments indicated in the report on the results of the audit. The report with the results of the audits is communicated to the Chairman of the Management Board of the Bank. The Internal audit service, at least once every six months, submits a written report on the results of inspections conducted during the reporting half-year term to the Audit and Risk Committee and the Board of Directors of the Bank.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulations of the CBR dated 16 December 2003 No. 242-P _On the Organisation of Internal Control in Credit Organisations and Banking Groups_ sets out the specific requirements for the Internal audit service and the Internal control service (the compliance service).

The main functions of the Internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfilment of the decisions of key management structures

- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)

- audit of reliability of internal control system over automated information systems

- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information

- audit of applicable methods of safekeeping the Bank's property

- assessment of economic reasonability and efficiency of operations and other deals

- audit of internal control processes and procedures

- audit of the Internal control service and the Risk Department

- other issues provided for in the internal documents of the Bank.

The main functions of the Internal control service (the compliance service) include the following:

- identification of regulatory risks

- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences

- monitoring of regulatory risk

- preparation of recommendations on regulatory risk management

- coordination and participation of design of measures to decrease regulatory risk

- monitoring of efficiency of regulatory risk management

- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest

- analysis of dynamics of clients' complaints

- analysis of economic reasonableness of agreements with suppliers

- participation in interaction with authorities, self-organised organisations, associations and financial market participants

- other issues provided for in the internal documents of the Bank.

Russian legislation, including Federal Law No. 395-1, Direction of the CBR dated 1 April 2014 No. 3223-U _On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation_ establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, Heads of the Internal audit service, the Internal control service and the Risk Department and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

(c) Risk management policies and procedures

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

The risk management policies of the Group aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2016, the Group's effective internal documentation establishing the procedures and methodologies for identification and managing the Group's significant risks, stress-testing of these risks was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The risk and capital management policies established in the Group, as well as internal control policies, are consistent with the nature and scope of its operations and the level and combination of risks it takes.

The Board of Directors approves the General risk management policy, which regulates the general principles of risk management, acceptable level of risks, strategic goals in risk management and priorities for development of risk management policies. The Board of Directors ensures the improvement of the risk management policies, approves draft risk management documents, terms of standard products and programs for the Bank's clients, monitors and controls the elements of the risk management, approves the acceptable level of risks within the approved development strategy, controls compliance of the Group's operations with the basic principles of credit policy and policies for other operations, develops, implements and manages credit decisions making process.

The Management Board implements the risk management policy, approves the rights and structure of the collegial risk management bodies, takes decisions on the certain types of risks, approves the credit policy and the policy regarding other asset- and liability-related transactions.

The Credit Committee (credit committee system) of the Bank is responsible for optimization of credit risks and maintaining of an effective loan portfolio in terms of the "risk-profitability" ratio and controls risk both at the portfolio and specific transactions levels.

The Risk Department is responsible for general risk management and controls the application of general principles and methods of identification, estimation, management and reporting risks on a regular basis. The Risk Department develops methodology for risk assessment, performs independent risk analysis for products, programs and limits of particular customers/transactions, performs a portfolio risk analysis and controls the risk by setting limits and controlling their compliance, preparing risk reports covering all major risks, including credit, market, operational and liquidity risks, which are regularly reported to the Board of Directors, the Audit and Risk Committee of the Board of Directors and the Management Board. The Risk Department is not subordinate to and does not report to risk-taking divisions.

The divisions manage risks within the area of their responsibilities.

The Internal audit service audits the divisions for compliance with internal policy, reports on non-compliances to the Board of Directors and management, suggests measures to eliminate the identified violations and controls their correction.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The Bank has the "Market risk management policy", which specifies basic principles and methods of market risk management, the participants of market risk management process, their rights and responsibilities.

In accordance with the policy, the Bank applies the independence principle for divisions responsible for transactions with market risks and divisions responsible for identification, assessment and monitoring of taken risks. The approved broad structure of limits for market risk transactions allows to control the level of the taken risk and possible impact on financial performance and capital of the Bank. The limits are reviewed on a regular basis depending on the market situation and the Bank's financial needs. The reports on the risks taken are prepared on a regular basis by the responsible divisions and provided to the management of the Group.

(i) Interest rate risk

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

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 31 December 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %			2015 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	6%	-	-	10%	1%	2%
Financial instruments at fair value through profit or loss	-	-	-	13%	-	-
Available-for-sale financial assets	8%	4%	-	11%	5%	4%
Due from banks	-	-	1%	1%	3%	-
Amounts receivable under reverse repurchase agreements	-	-	-	11%	9%	-
Loans to customers						
- retail	22%	10%	-	24%	10%	-
- corporate	17%	9%	3%	18%	10%	5%
Net investments in finance leases	33%	23%	-	29%	23%	-
Held-to-maturity investments	11%	4%	-	12%	7%	-

	2016 Average effective interest rate, %			2015 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing liabilities						
Deposits and balances from banks	9%	6%	2%	9%	5%	1%
Amounts payable under repurchase agreements	10%	2%	-	11%	2%	-
Term deposits from customers						
- retail	9%	2%	2%	12%	4%	4%
- corporate	10%	2%	2%	11%	2%	4%
Debt securities issued						
- promissory notes	9%	5%	-	8%	5%	-
- bonds	10%	-	-	11%	-	-
Subordinated borrowings	-	12%	-	-	12%	-

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December is as follows:

	2016		2015	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
300 bp parallel fall	317 082	317 082	541 263	541 263
300 bp parallel rise	(317 082)	(317 082)	(541 263)	(541 263)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December and a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2016		2015	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
300 bp parallel fall	(1 008)	411 858	9 578	756 906
300 bp parallel rise	1 001	(438 288)	(9 587)	(687 992)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The system of currency risk management includes procedures for calculating the limit of the amount of open currency position and limits for conversion operations, as well as exchange rate policy.

Currency risk management is carried out on the basis of the ALCO decisions.

The Group controls the level of currency risk by observing the limits of the open currency position ("OCP"). The Treasury monitors OCP daily to ensure its compliance with the requirements of the CBR and intra-bank restrictions.

Currency risk is minimized by the balanced value of OCP, which allows to provide the required liquidity per foreign currencies.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2016:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS						
Cash and cash equivalents	7 311 806	1 715 551	918 110	1 162 239	250 370	11 358 076
Obligatory reserves with the Central Bank of the Russian Federation	808 276	-	-	-	-	808 276
Financial instruments at fair value through profit or loss	-	51 856	8 479	3 504	41 293	105 132
Available-for-sale financial assets	14 996 392	694 295	-	-	1 970 803	17 661 490
Due from banks	3 680 839	19 609	1 780	-	2 757	3 704 985
Loans to customers	63 800 396	4 786 503	401 506	-	-	68 988 405
Net investments in finance leases	1 267 728	22 185	-	-	-	1 289 913
Investments in associates and other investments	121 818	-	-	-	-	121 818
Held-to-maturity investments	2 807 965	824 015	-	-	-	3 631 980
Deferred tax assets	394 576	-	-	-	-	394 576
Property, equipment, intangible assets and investment property	6 636 115	-	-	-	-	6 636 115
Other assets	4 499 739	81 085	347 630	-	1	4 928 455
Total assets	**106 325 650**	**8 195 099**	**1 677 505**	**1 165 743**	**2 265 224**	**119 629 221**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	162 695	17 969	1 870	116	182 650
Deposits and balances from banks	976 607	777 421	415 517	-	175 398	2 344 943
Amounts payable under repurchase agreements	2 943 308	762 872	-	-	-	3 706 180
Current accounts and deposits from customers	78 756 395	6 670 617	1 451 844	3 196 697	277 941	90 353 494
Debt securities issued	1 954 025	2 223	-	-	-	1 956 248
Subordinated borrowings	-	4 488 287	-	-	-	4 488 287
Other liabilities	2 413 611	5 111	1 005	-	426	2 420 153
Total liabilities	**87 043 946**	**12 869 226**	**1 886 335**	**3 198 567**	**453 881**	**105 451 955**
Net position	**19 281 704**	**(4 674 127)**	**(208 830)**	**(2 032 824)**	**1 811 343**	**14 177 266**
The effect of derivatives held for risk management	**(4 706 805)**	**4 263 520**	**172 207**	**2 005 767**	**(1 734 689)**	**-**
Net position after derivatives held for risk management purposes	**14 574 899**	**(410 607)**	**(36 623)**	**(27 057)**	**76 654**	**14 177 266**

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2015:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS						
Cash and cash equivalents	10 184 032	2 871 614	2 228 491	1 434 823	614 785	17 333 745
Obligatory reserves with the Central Bank of the Russian Federation	638 293	-	-	-	-	638 293
Financial instruments at fair value through profit or loss	348 578	21 032	31 793	-	12 223	413 626
Available-for-sale financial assets	14 907 198	2 623 489	2 146 566	-	829 467	20 506 720
Due from banks	154	450 186	265 525		1 157	717 022
Amounts receivable under reverse repurchase agreements	7 314 994	2 302 029	-	-	-	9 617 023
Loans to customers	62 432 099	11 909 636	537 416	-	35 550	74 914 701
Net investments in finance leases	1 182 512	211 345	-	-	-	1 393 857
Investments in associates	575 000	-	-	-	-	575 000
Held-to-maturity investments	4 504 688	2 530 374	-	-	-	7 035 062
Deferred tax assets	103 016	-	-	-	-	103 016
Property, equipment, intangible assets and investment property	5 137 753	-	-	-	-	5 137 753
Other assets	4 059 695	620 998	2 273	-	-	4 682 966
Total assets	**111 388 012**	**23 540 703**	**5 212 064**	**1 434 823**	**1 493 182**	**143 068 784**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	195 974	1 507	-	1 026	198 507
Deposits and balances from banks	2 272 941	999 541	605 000	-	94 624	3 972 106
Amounts payable under repurchase agreements	6 421 411	1 739 475	-	-	-	8 160 886
Current accounts and deposits from customers	88 300 389	12 016 296	1 953 498	1 434 900	321 782	104 026 865
Debt securities issued	4 674 476	10 082	-	-	-	4 684 558
Subordinated borrowings	-	5 385 283	-	-	-	5 385 283
Deferred tax liabilities	8 253	-	-	-	-	8 253
Other liabilities	717 517	17 436	1 526	-	7	736 486
Total liabilities	**102 394 987**	**20 364 087**	**2 561 531**	**1 434 900**	**417 439**	**127 172 944**
Net position	**8 993 025**	**3 176 616**	**2 650 533**	**(77)**	**1 075 743**	**15 895 840**
The effect of derivatives held for risk management	**7 143 573**	**(3 283 142)**	**(2 697 638)**	**-**	**(1 162 793)**	**-**
Net position after derivatives held for risk management purposes	**16 136 598**	**(106 526)**	**(47 105)**	**(77)**	**(87 050)**	**15 895 840**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2016 and 31 December 2015 would have decreased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		2015	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
20% appreciation of USD against RUB	(65 697)	(65 697)	(17 044)	(17 044)
20% appreciation of EUR against RUB	(5 860)	(5 860)	(7 537)	(7 537)

A strengthening of the RUB against the above currencies at 31 December 2016 and 31 December 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Equity risk

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity risk arises when the Group takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity as a result of changes in quotations of equity secutities (prepared on the basis of positions to be in force as at 31 December 2016 and 31 December 2015, and simplified scenario of 10% decrease or rise of quotations of equity secutities) is presented as follows:

	2016		2015	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
10% rise of quotations of equity securities	-	157 664	-	36 454
10% decrease of quotations of equity securities	-	(157 664)	-	(36 454)

(iv) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations before the Group.

The Group has policies and procedures for the management of credit exposures regulating the procedures of the evaluation of the financial position of the Borrower, the order to take decision for issuing loans, guidelines to monitor the timing of its settlement.

Risk for one borrower or the group of related borrowers, the maximum size of big credit risks, the aggregate amount of risk for insiders of the Bank, the maximum size of loans, bank guarantees and warrantees, issued by the Bank to its participants (shareholders) are additionally restricted by internal limits, which are lower than the statutory ratios, set by the CBR.

The Group limits the concentration of risks per separate clients, counterparties and issuers of securities, as well as groups of interdependent clients.

The management of credit risks is performed in accordance with the “Policy on managing credit risks”, assuming the realisation of the system approach, which is based on the principles of awareness of the risks, separation of authorities for accepting, assessing and monitoring of accepted risks, integrity and consistency of credit risks evaluation, alignment of procedures and methods of evaluation of credit risks, actuality of applied procedures of evaluation and monitoring of risks. The principles of identification, analyses, evaluation, optimisation, monitoring and control of credit risks are established by the regulatory documents of the Bank.

The main direction of credit risk management are:

- the limitation of credit risks by the operating system of limits for credit risks decisions, for credit risks concentration for the separate borrowers/groups of interrelated borrowers

- coverage of credit risks through the accepted collateral and its insurance, charging adequate fees for credit risks and accrual of allowance for impairment for credit losses

- the control of credit risks level, taken by the Group for the counterparty or group of interrelated counterparties, as well as through regular monitoring the quality of credit loan portfolio, separate clients, deals and collateral property

- credit risk prevention on the stage of consideration of loan applications, as well as by taking timely actions in identifying factors of credit risks in the process of monitoring

- the detailed study of the borrowers business including the evaluation of the financial statement of the borrower, as well as the initial structuring of the transaction, exercised by the regional credit divisions/credit committees

- the ongoing monitoring of credit projects - includes the verification of the borrower’s financial statement and its business as a whole, the determination of the level of risks and the amount of allowance for impairment for credit losses, the specification of parameters and the structure of the deal, as well as the evaluation of the taken collateral, exercised by the Head office credit divisions/credit committees

- the independent verification and validation of the credit projects - includes the calculation of borrower’s rating, the evaluation the level of credit investments concentration, the control over the impairment allowance calculation, the correction of the structure of the deal, and within the scope of retail lending the analyses of the approved (changing) characteristics of the retail products of the Bank, as well as assessing the cost of products with consideration the premium for risk (COR), performed by the risk-management divisions of the Head office

- disaggregation of authorities to take credit decisions - includes the developed system of credit limits for independent procedure of risks taking; the overview of limits is carried on at least two times a year by the regulatory body

- the operation of the “veto” institute at all levels of taking credit decisions – includes vesting the right for “veto” to employees of risk-management emploees, members of credit committees of the Bank; the ultimate authority for the overcoming of “veto” is the Management Board of the Bank

- the evaluation of the portfolio credit risk level on the on-going base – includes the analysis and evaluation of the credit risk level (risk - reporting).

The main internal risk reporting includes the corporate and retail credit risks reports, which are prepared on a monthly basis by the relevant risk-management divisions, at least once per quarter are reviewed by the Audit and Risk Committee of the Board of Directors. Based on the results of this review, the decisions on changing/correction of credit policy are taken with the aim of maintaining the level of credit risk at the acceptable level.

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

For the analysis of concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 36.

(e) Offsetting financial assets and financial liabilities

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

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

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

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

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

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

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements.

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

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

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	-	-	-	-	-	-
Total financial assets	**-**	**-**	**-**	**-**	**-**	**-**
Sale and repurchase agreements	(3 706 180)	-	(3 706 180)	(3 706 180)	-	-
Total financial liabilities	**(3 706 180)**	**-**	**(3 706 180)**	**(3 706 180)**	**-**	**-**

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

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	9 617 023	-	9 617 023	(9 617 023)	-	-
Total financial assets	**9 617 023**	**-**	**9 617 023**	**(9 617 023)**	**-**	**-**
Sale and repurchase agreements	(8 160 886)	-	(8 160 886)	8 160 886	-	-
Total financial liabilities	**(8 160 886)**	**-**	**(8 160 886)**	**8 160 886**	**-**	**-**

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

- derivative assets and liabilities – at fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities or current payments on behalf of customers without restructuring the assets and/or urgently raising the necessary funds. Liquidity risk exists when the maturities of assets and liabilities do not match.

The Group has developed a policy for managing and monitoring the liquidity situation, which is the basis for the organisation of work on liquidity management and regulates the system of requirements for divisions' interaction, a list of activities conducted within the framework of liquidity management, and a system of measures to maintain and restore liquidity of the Group. The liquidity management policy is reviewed and approved by the Board of Directors of the Bank.

The purpose of the policy is to ensure the Group's liquidity level is sufficient to fulfil its obligations, while observing the cost of attracting additional funding under reasonable market conditions.

The process of liquidity management includes two main parts:

- compliance with mandatory liquidity ratios established by the CBR

- intra-bank liquidity management activities.

The Bank calculates the value of the short-term liquidity indicator (STLI) monthly, in accordance with the procedure established by the CBR, taking into account international approaches to the calculation of the short-term liquidity indicator and the instruments for monitoring liquidity risk (Basel III).

Within the framework of the Group's liquidity management policy, the following actions are taken:

- initial liquidity assessment based on the payment calendar data, taking into account the planned new transactions with customers and counterparties

- forming a regulatory liquidity reserve in the form of highly liquid assets, converting into cash in minimum terms and with minimal losses from their market value, which can be easily realised as a protective measure in case of a break in cash liquidity

- forecasting of cash flows and calculation of the required level of liquid assets related to these flows

- performing regular monitoring and analysis of the level, structure and parameters of liquidity of assets and determining the liquidity requirements taking into account the current market situation and available alternative sources of financing

- determining the estimated timeframe necessary for converting each type of asset into cash

- carrying out diversification of short-term financing sources to achieve maximum liquidity.

Liquidity risk management is divided into management of current, short-term and forecast (medium- and long-term) liquidity.

The management of current liquidity covers the management of liquidity reserves, in order to ensure the timely and full execution of payment orders of customers, as well as conducting the Group's own payments. Money market instruments, which include short-term interbank loans, repurchase agreements, are used to regulate current and short-term liquidity and are not used to fund long-term assets.

The main source of liquidity of the Group is a portfolio of securities.

The methodology for measuring the liquidity position of the Bank is established by the procedure for maintaining a report on the net monetary position and liquidity reserves of the Bank. The Bank's net monetary position and liquidity reserves are indicators that are not subject to mandatory disclosure, but are used by the Bank to manage liquidity risk.

The net monetary position is formed on the basis of the balances of the following highly liquid assets:

- cash on hand
- funds in ATMs
- Correspondent account in the CBR
- NOSTRO accounts
- balance of transactions in the inter-bank loan market with a maturity of up to 30 days
- balance of REPO transactions with a maturity of up to 30 days
- highly liquid securities, free of collateral
- presentation for payment of own/third-party promissory notes.

The net monetary position is adjusted for the unstable balance of customer accounts.

The total value of the above items shows the net monetary position as of the morning of the reporting day, taking into account expected inflows/outflows for 1,7 and 30 days.

Liquidity reserves indicate the level of free liquid assets after deducting the necessary minimum values for the continued activity of the Bank.

The Treasury monitors the liquidity position on a daily basis and performs operational management of the Group's current liquidity by initiating interbank operations to attract and allocate funds to other structural divisions of the Group that are responsible for concluding transactions with inter-bank and capital market instruments.

Carrying out measures aimed at increasing the amount of highly liquid assets of the Bank is submitted for consideration to the ALCO. By the ALCO decision, the divisions of the Group may be given instructions on the sale of low liquid assets, making borrowing and other activities. In addition, certain issues may be submitted for consideration to the Management Board.

Possible actions include:

- attraction of loans from the CBR in accordance with the Regulation of the CBR dated 12 November 2007, No 312-P *About Procedure for Granting Loans to Credit Institutions by the Bank of Russia Secured by Assets or Guarantees*
- raising funds in the inter-bank market, within the limits of other banks opened for the Bank
- securitisation of loan portfolios
- reduction in the amount of new loans issuance within the inter-bank, retail and corporate loan portfolios.

Medium-term and long-term liquidity management is carried out by the ALCO by developing a set of measures aimed at maintaining solvency and ensuring profitability of the Bank's operations as a whole. When forecasting, the analysis is performed taking into account the actual demand/maturity of assets/liabilities and the control of the gap between assets and liabilities (GAP analysis).

In order to assess the potential impact on the liquidity situation of the Group of negative market events and/or directly related to the Group, the Treasury conducts stress tests on a regular basis to assess the Group's ability to sell assets and raise additional funds in the event of a liquidity lack.

Liquidity status reports are reviewed weekly at the ALCO meetings.

The ALCO decisions may set limits for indicators that are not subject to mandatory disclosure but used by the Group for liquidity management purposes.

Decisions on measures to manage liquidity risks are made by the ALCO and executed by the Group's divisions involved in the implementation of the liquidity management policy. The results of the reports prepared by the ALCO are communicated to the management bodies and the Board of Directors.

The following tables show the undiscounted cash flows from financial liabilities and unrecognised credit related commitments under contractual maturities. The aggregate amounts of cash inflows and outflows indicated in these tables represent contractual undiscounted cash flows from financial liabilities or off-balance sheet commitments.

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	1 178 424	59 506	830 644	310 182	-	2 378 756	2 344 943
Amounts payable under repurchase agreements	3 714 542	-	-	-	-	3 714 542	3 706 180
Current accounts and deposits from customers	20 611 814	16 247 155	54 549 035	1 159 457	-	92 567 461	90 353 494
Debt securities issued	264 937	11 845	568 698	1 383 418	335	2 229 233	1 956 248
Subordinated borrowings	144 010	-	742 430	4 942 314	-	5 828 754	4 488 287
Other financial liabilities	131 241	50 586	18 960	6 382	-	207 169	207 169
Derivative liabilities							
Inflow	(35 361 238)	-	-	-	-	(35 361 238)	-
Outflow	35 543 888	-	-	-	-	35 543 888	182 650
Total financial liabilities	**26 227 618**	**16 369 092**	**56 709 767**	**7 801 753**	**335**	**107 108 565**	**103 238 971**
Credit related commitments	**9 424 459**	**-**	**-**	**-**	**-**	**9 424 459**	**9 424 459**

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	857 976	202 862	657 523	2 669 199	111 519	4 499 079	3 972 106
Amounts payable under repurchase agreements	7 641 928	546 938	-	-	-	8 188 866	8 160 886
Current accounts and deposits from customers	28 344 434	21 641 820	53 853 483	3 537 333	-	107 377 070	104 026 865
Debt securities issued	205 043	1 866 020	876 474	2 174 622	23 724	5 145 883	4 684 558
Subordinated borrowings	168 359	-	455 561	6 998 901	-	7 622 821	5 385 283
Other financial liabilities	88 642	22 911	52 095	93 068	487	257 203	257 203
Derivative liabilities							
Inflow	(17 849 867)	-	(2 972 203)	-	-	(20 822 070)	-
Outflow	17 958 814	-	3 061 763	-	-	21 020 577	198 507
Total financial liabilities	**37 415 329**	**24 280 551**	**55 984 696**	**15 473 123**	**135 730**	**133 289 429**	**126 685 408**
Credit related commitments	**13 933 632**	**-**	**-**	**-**	**-**	**13 933 632**	**13 933 632**

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian Federation legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits with future payments of interests, included in the tables above, totaling RUB 68 017 882 thousand (31 December 2015: RUB 72 545 319 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2016:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	11 358 076	-	-	-	-	-	11 358 076
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	808 276	808 276
Financial instruments at fair value through profit or loss	105 132	-	-	-	-	-	105 132
Available-for-sale financial assets	13 422 358	-	4 239 132	-	-	-	17 661 490
Due from banks	-	-	-	3 682 206	-	22 779	3 704 985
Loans to customers	3 658 437	5 849 422	24 852 166	30 981 264	3 647 116	-	68 988 405
Net investments in finance leases	99 170	105 031	472 640	613 072	-	-	1 289 913
Investments in associates and other investments	-	-	-	-	-	121 818	121 818
Held-to-maturity investments	-	-	1 082 663	2 549 317	-	-	3 631 980
Deferred tax assets	-	-	-	-	-	394 576	394 576
Property, equipment, intangible assets and investment property	-	-	-	-	-	6 636 115	6 636 115
Other assets	1 459 408	1 060 408	1 758 352	55 933	550 723	43 631	4 928 455
Total assets	**30 102 581**	**7 014 861**	**32 404 953**	**37 881 792**	**4 197 839**	**8 027 195**	**119 629 221**
LIABILITIES							
Derivative financial instruments	182 650	-	-	-	-	-	182 650
Deposits and balances from banks	1 162 070	56 391	818 334	308 148	-	-	2 344 943
Amounts payable under repurchase agreements	3 706 180	-	-	-	-	-	3 706 180
Current accounts and deposits from customers	20 541 900	15 629 334	53 076 980	1 105 280	-	-	90 353 494
Debt securities issued	263 375	11 686	538 795	1 142 057	335	-	1 956 248
Subordinated borrowings	144 010	-	374 390	3 969 887	-	-	4 488 287
Other liabilities	699 645	430 138	1 273 290	17 080	-	-	2 420 153
Total liabilities	**26 699 830**	**16 127 549**	**56 081 789**	**6 542 452**	**335**	**-**	**105 451 955**
Net position	**3 402 751**	**(9 112 688)**	**(23 676 836)**	**31 339 340**	**4 197 504**	**8 027 195**	**14 177 266**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2015:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	16 250 802	1 082 943	-	-	-	-	17 333 745
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	638 293	638 293
Financial instruments at fair value through profit or loss	368 600	14 993	30 033	-	-	-	413 626
Available-for-sale financial assets	20 506 720	-	-	-	-	-	20 506 720
Due from banks	-	-	713 542	-	-	3 480	717 022
Amounts receivable under reverse repurchase agreements	9 617 023	-	-	-	-	-	9 617 023
Loans to customers	4 857 769	4 153 011	28 050 679	33 846 298	4 006 944	-	74 914 701
Net investments in finance leases	291 795	132 575	596 589	372 898	-	-	1 393 857
Investments in associates	-	-	-	-	-	575 000	575 000
Held-to-maturity investments	-	943 616	1 408 809	4 682 637	-	-	7 035 062
Deferred tax assets	-	-	-	-	-	103 016	103 016
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 137 753	5 137 753
Other assets	1 279 432	652 953	2 140 926	8 475	562 883	38 297	4 682 966
Total assets	**53 172 141**	**6 980 091**	**32 940 578**	**38 910 308**	**4 569 827**	**6 495 839**	**143 068 784**
LIABILITIES							
Derivative financial instruments	108 947	-	89 560	-	-	-	198 507
Deposits and balances from banks	854 403	169 008	511 503	2 337 192	100 000	-	3 972 106
Amounts payable under repurchase agreements	7 616 284	544 602	-	-	-	-	8 160 886
Current accounts and deposits from customers	28 201 987	20 651 153	51 836 040	3 337 685	-	-	104 026 865
Debt securities issued	203 739	1 840 271	830 997	1 785 829	23 722	-	4 684 558
Subordinated borrowings	167 424	-	12 555	5 205 304	-	-	5 385 283
Deferred tax liabilities	-	-	-	-	-	8 253	8 253
Other liabilities	349 471	94 510	198 950	93 068	487	-	736 486
Total liabilities	**37 502 255**	**23 299 544**	**53 479 605**	**12 759 078**	**124 209**	**8 253**	**127 172 944**
Net position	**15 669 886**	**(16 319 453)**	**(20 539 027)**	**26 151 230**	**4 445 618**	**6 487 586**	**15 895 840**

In accordance with the Russian Federation legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 65 927 678 thousand (31 December 2015: RUB 69 531 129 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2016 RUB'000	**2015 RUB'000**
Demand and less than 1 month	9 422 159	9 990 067
From 1 to 3 months	14 036 392	16 611 531
From 3 to 12 months	41 495 356	40 136 105
From 1 to 5 years	973 771	2 793 426
	65 927 678	**69 531 129**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Overdue and impaired loans are included in from 3 months to 1 year category based on past experience analysis of their recoverability
- Available-for-sale financial assets: management holds a portfolio of liquid securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale securities, totalling RUB 13 422 358 thousand (31 December 2015: RUB 20 506 720 thousand) are included in demand and less than 1 month category. Other securities in the amount of RUB 4 239 132 thousand (31 December 2015: none) are included in from 3 to 12 months category based on the Group's management plans for their sale.

Contractual maturities of available-for-sale financial assets are as follows:

	2016 RUB'000	**2015 RUB'000**
Less 1 month	635 720	-
From 1 to 3 months	149 715	3 217 784
From 3 to 12 months	4 664 896	3 307 291
From 1 to 5 years	6 725 902	13 013 731
More than 5 years	1 203 218	512 235
Overdue	1 012 347	-
No maturity	3 269 692	455 679
	17 661 490	**20 506 720**

- In accordance with the Russian Federation legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However, past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts for the year ended 31 December 2016, totalling RUB 10 347 426 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category (31 December 2015: RUB 8 639 246 thousand).

The Group maintains unused lines of credit from the CBR and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from the CBR and other financial institutions, mentioned above.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 31 December 2016 and 31 December 2015. The following table shows the mandatory liquidity ratios calculated as at 31 December 2016 and 31 December 2015.

	Requirement	**2016, %**	**2015, %**
Instant liquidity ratio (N2)	Not less than 15%	271.6	287.7
Current liquidity ratio (N3)	Not less than 50%	183.9	255.3
Long-term liquidity ratio (N4)	Not more than 120%	32.8	38.3

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

33 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Till 1 January 2016 the Group calculated the amount of capital in accordance with Direction of the CBR dated 25 October 2013 No 3090-U *On calculation of amount of own funds (capital), economic ratios and amounts (limits) of open currency positions of banking groups* and since 1 January 2016 – in accordance with Provision of the CBR dated 3 December 2015 No 509-P *On calculation of amount of own funds (capital), economic ratios and amounts (limits) of open currency positions of banking groups.*

As at 31 December 2016, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly. As at 31 December 2015, minimal capital ratios N20.1, N20.2, N20.0 were 5.0%, 6.0% and 10.0%, accordingly. Starting from 1 January 2016, the Group should comply with capital buffers: capital conservation buffer and countercycle buffer. As at 31 December 2016, the minimum levels of capital buffers are 0.625% and 0% accordingly.

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

The Group provides the territorial CBR that supervises its activity with information on mandatory ratios in accordance with set form. The Bank's Financial-Analytical Department controls on a daily basis compliance with capital adequacy ratios.

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

The calculation of capital adequacy for the Group based on requirements set by the CBR ratios as at 31 December 2016 and 31 December 2015 is as follows:

	2016 RUB'000	2015 RUB'000
Base capital	9 725 591	11 347 361
Main capital	9 725 591	**11 347 361**
Additional capital	3 356 479	5 202 287
Own funds (capital)	**13 082 070**	**16 549 648**
Risk-weighted assets	**135 563 681**	**144 538 410**
Ratio N20.1 (%)	**7.30**	**7.94**
Ratio N20.2 (%)	**7.30**	**7.94**
Ratio N20.0 (%)	**9.71**	**11.45**

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2016 and 31 December 2015.

34 Involvement with unconsolidated structured entities

The table below describes the structured entities that the Group does not consolidate but in which it holds an interest as at 31 December 2016:

Description	Country of registration	The main types of activity	Interest held by the Group	Total assets, RUB'000
CJSC "Multi Originator Mortgage Agent 1"	Russian Federation	Mortgage agent	See below	9 770 705

CJSC "Multi Originator Mortgage Agent 1" ("MMA 1") is a structured entity established to facilitate the issue of mortgage backed securities (refer to notes 22 and 24). The Group does not control MMA 1. The involvement of the Group refers to retaining risks and benefits of the entity in the amount of the issued lower tranche of bonds by MMA 1 which was bought by the Group, as well as the fees for transferred mortgage loan servicing.

The table below sets out the carrying amounts of interests held by the Group in MMA 1 representing the maximum exposure to loss:

	2016 Other assets, RUB'000	2015 Other assets, RUB'000
Continuing involvement with sold loan portfolio	563 048	563 048
Impairment allowance	(12 325)	(165)
Total net continuing involvement with sold loan portfolio net of impairment allowance	**550 723**	**562 883**

35 Acquisition of subsidiary companies

The fair value of identifiable assets and liabilities of the CUIF "Celena" as at the date of control acquisition can be presented as follows:

	RUB'000
Fair value of identifiable net assets:	
Cash and cash equivalents	11 897
Long-term assets held-for-sale	308 151
Other assets	10 354
Other liabilities	(1 469)
Total fair value of identifiable net assets	**328 933**
Share acquired, %	51.58%
Acquired share of identifiable net assets	**169 664**
Fair value of consideration transferred	**169 664**

As at 31 December 2016 года CUIF "Celena" is an associate company of the Group (refer to note 1).

36 Commitments

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

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

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

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

	2016 RUB'000	2015 RUB'000
Contracted amount		
Undrawn overdraft facilities	5 044 390	6 014 107
Guarantees and letters of credit	2 899 523	5 806 084
Loan and credit line commitments	1 480 546	2 113 441
	9 424 459	**13 933 632**

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

As at 31 December 2016, the Group has a commitment to purchase 4 779 kg of gold, 6 381 kg of silver and 128 kg of platinum (31 December 2015: 6 643 kg of gold and 215 kg of silver) under contracts to be settled at the market price at the date of maturity.

37 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

38 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

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

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

39 Related party transactions

(a) Control relationships

The Group's parent company is LLC "PPFIN Region" (Russian Federation). As at 31 December 2016 and 31 December 2015, the ultimate beneficial collective owners of the Group were Mr. Andrey Vdovin (the owner of 22.528%), Mr. Alexey Maslovsky (the owner of 22.528%), Mr. Peter Hambro (the owner of 22.528%).

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

	2016 RUB'000	2015 RUB'000
Short term employee benefits	144 055	117 037
	144 055	**117 037**

The outstanding balances and average effective interest rates as at 31 December 2016 and 31 December 2015 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2016 RUB'000	Average effective interest rate, %	2015 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	1 008 302	18.17%	208 438	15.23%
Other assets	1 724	-	1 345	-
LIABILITIES				
Current accounts and deposits from customers	9 418	3.80%	66 025	10.73%
Other liabilities	-	-	2	-

	2016 RUB'000	Average effective interest rate, %	2015 RUB'000	Average effective interest rate, %
Commitments				
Credit commitments	1 100	-	2 030	-

Other amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2016 RUB'000	2015 RUB'000
Consolidated statement of of profit or loss and other comprehensive income		
Interest income	153 360	17 590
Interest expense	(6 863)	(14 278)
Impairment losses	(2 729)	(1 111)

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2016 and 31 December 2015 for transactions with shareholders owning more than 10% share capital are as follows:

	2016 RUB'000	Average effective interest rate, %	2015 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	4 165 028	12.04%	5 578 540	9.90%
Other assets	-	-	437 296	-
LIABILITIES				
Current accounts and deposits	195	-	6	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2016 RUB'000	2015 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	500 111	641 486
Interest expenses	-	(3 814)
Recovery (charge) of impairment allowance	23 792	(70 531)

During 2015 year the Group received cash contributions to additional paid-in capital from shareholder "PPFIN Region" in the amount of RUB 2 200 000 thousand.

(d) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the ultimate beneficial owners of the Group.

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

	2016 RUB'000	**Average effective interest rate, %**	**2015 RUB'000**	**Average effective interest rate, %**
Consolidated statement of financial position				
ASSETS				
Cash and cash equivalents	-	-	1 005 167	13.00%
Available-for-sale financial assets	1 970 803	-	-	-
Amounts receivable under reverse repurchase agreements	-	-	251 785	11.10%
Loans to customers	4 520	17.74%	7 712	22.94%
Investments in associates	121 818	-	575 000	-
Other assets	74 383	-	1 744 294	-
LIABILITIES				
Derivative financial instruments	-	-	6 930	-
Deposits and balances from banks	21 857	0.03%	8 040	-
Current accounts and deposits from customers	43 672	-	547 615	11.17%
Other liabilities	1 417	-	6 614	-
Commitments				
Credit related commitments	50	-	50	-

Information on balances and allowance for impairment of transactions with PJSC "M2M Private Bank", included in the consolidated statement of financial position as at 31 December 2016, disclosed in notes 16 and 20.

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2016 RUB'000	**2015 RUB'000**
Consolidated statement of profit or loss and other comprehensive income		
Interest income	702 668	65 620
Interest expense	(43 331)	(64 405)
Commission income	135 220	245 668
Net loss on operations with foregn currencies	(183 136)	-
Loss from equity-accounted investee	(47 847)	-
Recovery of impairment allowance	394	21 446

40 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of all financial instruments as at 31 December 2016 approximates their carrying value except for the following financial instruments:

RUB'000	Balance value	Fair value
Loans to customers	68 988 405	69 309 678
Held-to-maturity investments	3 631 980	3 657 009
Deposits and balances from banks	2 344 943	2 275 258
Current accounts and deposits from customers	90 353 494	90 447 851
Debt securities issued	1 956 248	1 951 646

The estimated fair value of all financial instruments as at 31 December 2015 approximates their carrying value except for the following financial instruments:

RUB'000	Balance value	Fair value
Loans to customers	74 914 701	76 263 327
Held-to-maturity investments	7 035 062	6 999 962
Deposits and balances from banks	3 972 106	3 916 276
Current accounts and deposits from customers	104 026 865	104 440 814
Debt securities issued	4 684 558	4 440 920

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the Deputy Chairman of the Management Board, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss				
- Derivative assets	-	105 132		105 132
- Derivative liabilities	-	(182 650)		(182 650)
Available-for-sale financial assets	15 393 161	-	1 012 347	16 405 508

The fair value of available-for-sale financial assets relating to Level 3 of the fair value hierarchy in the table above was estimated based on cash received by the Group as a result of litigation on bonds of LLC "Vneshprombank" (refer to note 30). Till the impairment, these instruments were measured at fair value categorised to Level 1 of the fair value hierarchy, and as at 31 December 2015 were 100% impaired (refer to note 15). Recovery of impairment allowance in the amount of RUB 1 005 551 thousand was recorded in profit or loss for 2016.

Unquoted investments available for sale are recorded at cost. As at 31 December 2016, the cost of unquoted available-for-sale investments is RUB 1 255 982 thousand. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB ’000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	-	348 578	348 578
- Derivative assets	-	65 048	65 048
- Derivative liabilities	-	(198 507)	(198 507)
Available-for-sale financial assets	20 506 720	-	20 506 720

Fair value of all other financial instruments not measured at fair value categorised in Level 3.

41 Going concern

Management of the Group has prepared these consolidated financial statements on a going concern basis. Evaluating the compliance with this assumption, management of the Group considered the circumstances associated with the subsidiary PJSC “M2M Private Bank”.

The management and parties with ultimate beneficial collective control over the Group are fully aware of the scale and effects of the Group’s obligations to regulatory bodies on accrual of the allowance for possible losses in respect to the investments associated with the subsidiary PJSC “M2M Private Bank” (its banking license was revoked on 9 December 2016, the company was declared bankrupt by the court decision dated 22 February 2017) in accordance with the requirements of Russian accounting legislation (RAL).

The order of the CBR No T7-2-4-5/40403DSP dated 23 December 2016 has stipulated step-by-step accrual of 100% allowance for possible losses of outstanding loan of PJSC “M2M Private Bank” in the amount of RUB 6 105 million, accrued interest on the loan debt in the amount of RUB 119 million, nostro accounts in the amount of RUB 407 million, the balances on the broker account in the amount of RUB 5 million and investments in shares in the amount of RUB 537 million (in the amount of balance value of investments in shares totalling 2 300 000 thousand, which does not decrease the own funds (capital) of the Bank in accordance with requirements of Provision of the CBR dated 28 December 2012 No. 395-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)*) till 1 January 2018. In accordance with the approved schedule of allowance accrual in the annual financial statements of the Bank per RAL as at 1 January 2017 the allowance for possible losses for the balances related to PJSC “M2M Private Bank” and mentioned above is 0%. The expenses for the accrual of this allowance will have a significant impact on the financial results and activities of the Bank in 2017. The Board of Directors approved the financial plan for 2017 which includes the accrual of these expenses with keeping the capital amount sufficient to continue as a going concern as well as comply with all mandatory economic ratios, set by the CBR, including capital adequacy ratios.

Approved financial plan stipulates receiving of at least RUB 3 000 million of outstanding loan of PJSC “M2M Private Bank” in the bankruptcy procedure. In case no repayments would be made or other significant events, which are likely to result in inability to fulfil the financial plan by the Management and parties with ultimate beneficial collective control under the Group, would occur, the following actions are supposed to be conducted by the Group to continue operate as a going concern:

- increasing of the Bank’s capital by fundraising investments from third parties, which may lead to partial or full sale by the current shareholders of their shares (see also the information below about the order of the CBR on the structure of ownership)

- decrease in business activities aimed to risk-weighted assets to be in compliance with specified minimum owned funds (capital) adequacy ratios

- submission of an application to the CBR for correction the approved schedule of allowance accrual for the outstanding loan debt of PJSC "M2M Private Bank".

In accordance with IFRS management of the Group has evaluated the level of assets recoverability in the bankruptcy procedure based on available information about assets and liabilities of PJSC "M2M Private Bank" for the purposes of impairment allowance estimation. Based on this evaluation management of the Group accrued the allowance for impairment losses for balances in "Due from banks" in the amount of RUB 2 896 686 thousand (the gross amount is RUB 6 578 892 thousand), as well as 100% impairment allowance in the amount of RUB 2 300 000 thousand for the investments in shares of PJSC "M2M Private Bank". Due to current limited access to the information about the assets and liabilities of PJSC "M2M Private Bank" and results of the bankruptcy procedure, management of the Group is aware that there is significant uncertainty of amounts and terms of assets recoverability of PJSC "M2M Private Bank".

The shareholder of the Bank "East Capital Financials Fund AB" (Sweden) and the controlling parties of LLC "PPFIN Region" (Russian Federation) have received the order from the CBR to decrease the shares of these parties to no more than 10% of the Bank's shares. Until that the voting power of "East Capital Financials Fund AB" and LLC "PPFIN Region" is limited to 10% of Bank's shares at shareholders' general meetings. Currently "East Capital Financials Fund AB" is litigating the decision of the CBR in the court. Controlling parties of LLC "PPFIN Region" are taking actions to sell shares of the Bank or the shares of LLC "PPFIN Region" at their market price. Due to market inactivity it is difficult to evaluate the timeline of a deal.

The facts mentioned above together with the increased risks in the banking industry and the uncertainty of the future actions of the CBR towards the Bank, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

However, management of the Group believes that during 2017 all necessary actions will be taken for strengthening the financial stability of the Group for the purpose of compliance with prudential requirements of the CBR and the Group will continue operate as a going concern in foreseeable future.

Numbered, bound and sealed 93 (ninety three) sheets.

Kolosov A.E.
Director JSC "KPMG"

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