



АУДИТ-ЦЕНТР

АКЦИОНЕРНОЕ ОБЩЕСТВО
«ЕКАТЕРИНБУРГСКИЙ АУДИТ-ЦЕНТР»

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AUDITORS' REPORT

On annual consolidated financial statements
of Public Joint Stock Company "The Ural Bank for Reconstruction and Development",
prepared in accordance with
**International Financial Reporting Standards
2016**

To the Shareholders of Public Joint Stock Company "The Ural Bank for Reconstruction and Development"

Information on the audited entity:

Name: Public Joint Stock Company "The Ural Bank for Reconstruction and Development"

Primary State Registration Number: 1026600000350

Location: 67 Sacco and Vanzetti St., Ekaterinburg, Sverdlovsk region, Russian Federation, 620014

Information on the auditor:

Name of organization: Ekaterinburg Audit-Center, Joint Stock Company

Location: 60a Lenina Ave., Ekaterinburg, Sverdlovsk region, Russian Federation, 620062

Primary State Registration Number: 1036604386367

Membership in the self-regulatory organization of auditors:

A member of the self-regulating organization of auditors Audit Chamber of Russia (the Association), main registration number of entry in the state register of auditors and audit organizations 11603093084 from 23 December 2016.

We have audited the accompanying annual consolidated financial statements of Public Joint Stock Company "The Ural Bank for Reconstruction and Development" (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.



Audited Entity's Responsibility for the Annual Consolidated Financial Statements

Management of the audited entity is responsible for the preparation and fair presentation of these annual consolidated financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of annual 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 annual consolidated financial statements based on our audit. We conducted our audit in accordance with the Federal Auditing Standards. Those standards require that we comply with the current ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the annual consolidated financial statements in order to select the 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 annual consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these annual consolidated financial statements pursuant to Federal Law *On Banks and Banking Activity*.

Opinion

In our opinion, the annual consolidated financial statements present fairly, in all material respects, the financial position of the Group, the parent credit institution of which is Public Joint Stock Company "The Ural Bank for Reconstruction and Development" as at 31 December 2016, and its financial performance and its cash flows for 2016 in accordance with the International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion on the fair presentation of these annual consolidated financial statements, we draw attention to the following information:

Note 31 to the consolidated financial statements deals with the analysis of geographical concentration for 2016, according to which there is a significant concentration of claims towards non-resident legal entities with the share of 28.4% in total assets of the Group.

The gain from estimation at fair value of foreign currency forward contracts with maturity in 2017-2034 was recognised in "Net gains arising from trading in foreign currencies" line of the consolidated statement of profit or loss for 2016. The fair value of the contracts is disclosed in Note 34. The material effect on consolidated financial statements of the Group may arise in case of termination of these contracts.



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

The Bank's management is responsible for compliance of the Group, the parent credit institution of which is the Bank, with the mandatory ratios established by the Bank of Russia and for maintaining internal control and organizing the Bank's risk management systems in accordance with the 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*, during the audit of the annual consolidated financial statements of the Bank for 2016, we have performed procedures to assess:

compliance of the Group, the parent credit institution of which is the Bank, with the mandatory ratios as at 1 January 2017 as established by the Bank of Russia;

compliance of internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, 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:

1) with respect to the Group's compliance with the mandatory ratios as established by the Bank of Russia:

In October 2015 the Bank was approved by the state corporation Deposit Insurance Agency (SC DIA) as investor for participation in the plan aimed to prevent the bankruptcy of JSC VUZ-Bank. The rehabilitated credit institution has been consolidated by the Group, the parent credit institution of which is the Bank, as 100% of shares of JSC VUZ-Bank had been owned by the Bank at 31 December 2016.

We found that main capital adequacy ratio (N20.2) was violated by the Group, the parent credit institution of which is the Bank, as at 1 January 2017. We have also found that other mandatory ratios of the Group, the parent credit institution of which is the Bank, as at 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, the parent credit institution of which is the Bank, other than those which we considered necessary to enable us to express an opinion as to whether the Bank's annual consolidated financial statements present fairly, in all material respects, the financial position of the Group, the parent credit institution of which is the Bank, as at 1 January 2017, and its financial performance and its cash flows for 2016 in accordance with the International Financial Reporting Standards;

2) with respect to compliance of internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, with the requirements established by the Bank of Russia, we found that:

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

b) 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 the regulations and recommendations issued by the Bank of Russia;



c) as at 31 December 2016, the Bank maintained a system for reporting on the significant credit, operational, market, interest rate, legal, liquidity and reputational risks to the Group, the parent credit institution of which is the Bank, and on the equity (capital) of Group, the parent credit institution of which is the Bank;

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

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

Our procedures with respect to internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, were performed solely for the purpose of examining whether the internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, are in compliance with the requirements established by the Bank of Russia.

Deputy Director General of Audit
of Ekaterinburg Audit-Center, Joint Stock Company
(Power of Attorney No. 3 dated January 23, 2017)

Handwritten signature

Kondukhova, Tatyana Ivanovna

28 April, 2017



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Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of financial position

No	in thousands of Russian Roubles	Notes	31 December 2016	31 December 2015 (restated)
I	ASSETS			
1	Cash and cash equivalents	6	26 790 493	49 035 483
2	Mandatory cash balances with the Bank of Russia		2 426 867	1 583 269
3	Other securities at fair value through profit or loss	7	55 171 064	51 539 054
4	Securities available-for-sale	8	-	10 000
5	Investment securities held to maturity	9	89 898 316	33 738 981
6	Due from other banks	10	3 350 542	6 524 750
7	Loans and advances to customers - legal entities	11	127 940 906	100 729 502
8	Loans and advances to customers - individuals	12	41 617 971	45 318 027
9	Property and equipment	13	8 545 413	5 566 782
10	Investment property	14	805 713	5 841 056
11	Receivables under commission and sale and purchase agreements of commodities and equipment	15	2 412 257	16 996 256
12	Derivatives	34	25 094 639	8 410 685
13	Other assets	16	14 905 461	8 455 293
TOTAL ASSETS			398 959 642	333 749 138
II	LIABILITIES			
14	Due to other banks	18	134 854 054	96 952 302
15	Customer accounts - legal entities	19	47 838 773	48 035 961
16	Customer accounts - individuals	20	167 990 587	141 518 910
17	Debt securities in issue	21	14 311 791	12 709 747
18	Other liabilities	22	5 624 018	3 791 756
19	Other borrowed funds	23	11 687 557	16 057 138
TOTAL LIABILITIES			382 306 780	319 065 814
III	EQUITY			
20	Share capital	24	3 634 812	3 634 812
21	Share premium	24	1 581 956	1 581 956
22	Additional capital	24	3 504 300	3 423 503
23	Revaluation reserve for property and equipment		1 099 037	1 078 872
24	Cumulative translation reserve		-	(94 822)
25	Retained earnings		6 832 757	5 059 003
TOTAL EQUITY			16 652 862	14 683 324
TOTAL LIABILITIES AND EQUITY			398 959 642	333 749 138

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 28 April 2017.

Solovyev A.U.
President



Sirazov M.R.
Chief Accountant

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of profit or loss

	Notes	2016	2015 (restated)
<i>in thousands of Russian Roubles</i>			
Interest income	26	28 379 488	29 652 347
Interest expense	26	(26 001 680)	(30 365 413)
Fee and commission income	27	3 795 316	3 573 049
Fee and commission expense	27	(878 809)	(652 412)
Net gains arising from other securities at fair value through profit or loss		728 942	2 750 076
Net gains arising from securities available-for-sale		389 175	115 574
Net gains arising from trading in foreign currencies		9 660 334	15 477 158
Foreign exchange translation (losses)/gains		(3 698 850)	3 341 602
Income from assignment of loans		1 003 346	138 121
Repayment of loans previously written off against provision		216 035	56 444
Changes in the fair value of assets acquired in a business combination		266 901	-
Trade profit		3 528 499	-
Profit from disposal of subsidiaries	37	119 699	-
Realised cumulative translation reserve	37	(257 336)	-
Other operating income		1 266	31 171
Net operating income		17 252 326	24 117 717
Administrative and other expenses	28	(8 067 688)	(6 468 748)
Provision for the allowance for impairment:			
- Loans and advances to customers – legal entities	11	(280 606)	(1 091 042)
- Loans and advances to customers – individuals	12	(5 999 871)	(11 836 890)
- Finance lease receivables	16	(13 783)	(64 656)
- Investment securities held to maturity	9	(1 031 807)	(1 097 649)
- Advances to real estate developers	16	(149 539)	-
- Receivables under commission and sale and purchase agreements of commodities and equipment	15	(187)	-
Profit before tax		1 708 845	3 558 732
Income tax expense	29	(636 315)	(1 035 166)
Profit for the period		1 072 530	2 523 566

Solovyev A.U.
President



Sirazov M.R.
Chief Accountant

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of comprehensive income

<i>in thousands of Russian Roubles</i>	2016	2015
Profit for the period	1 072 530	2 523 566
Other comprehensive income/(loss) net of deferred income tax		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Foreign currency translation effect	(111 047)	5 347
Realised cumulative translation reserve	37 205 869	-
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation of property and equipment	197 186	(47 788)
Other comprehensive income/(loss) net of deferred income tax	292 008	(42 441)
Total comprehensive income	1 364 538	2 481 125

Solovyev A.U.
President



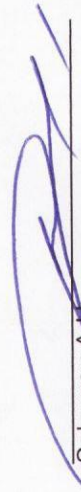
Sirazov M.R.
Chief Accountant

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of changes in equity

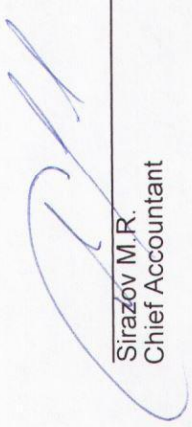
Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Cumulative translation reserve	Retained earnings	Total equity
<i>in thousands of Russian Roubles</i>							
Balance as at 1 January 2015	3 634 812	1 581 956	3 423 503	1 207 532	(100 169)	2 454 565	12 202 199
Other comprehensive (loss)/income net of deferred income tax							
Items that are or may be reclassified subsequently to profit or loss							
Foreign currency translation effect	-	-	-		5 347	-	5 347
Items that will not be reclassified to profit or loss:							
Property and equipment:							
- revaluation	-	-	-	(47 788)			(47 788)
- realised revaluation reserve for property and equipment	-	-	-	(80 872)	-	80 872	-
Other comprehensive (loss)/income net of deferred income tax	-	-	-	(128 660)	5 347	80 872	(42 441)
Profit for the period	-	-	-	-	-	2 523 566	2 523 566
Total comprehensive (loss)/income	-	-	-	(128 660)	5 347	2 604 438	2 481 125
Balance as at 31 December 2015	3 634 812	1 581 956	3 423 503	1 078 872	(94 822)	5 059 003	14 683 324

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of changes in equity

in thousands of Russian Roubles								
	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Cumulative Translation reserve	Retained earnings	Total equity
Other comprehensive income net of deferred income tax								
<i>Items that are or may be reclassified subsequently to profit or loss</i>								
Foreign currency translation effect	37	-	-	-	-	(111 047)	-	(111 047)
Realised cumulative translation reserve		-	-	-	-	205 869	-	205 869
<i>Items that will not be reclassified to profit or loss:</i>								
Property and equipment:	37				197 186	-	-	197 186
- revaluation		-	-	-				
- realised revaluation reserve for property and equipment		-	-	-	(177 021)	-	177 021	-
Other comprehensive income net of deferred income tax								
		-	-	-	20 165	94 822	177 021	292 008
Profit for the period								
		-	-	-	-	-	1 072 530	1 072 530
Total comprehensive income								
		-	-	-	20 165	94 822	1 249 551	1 364 538
Transactions with owners, recorded directly in equity								
Transfer of additional capital on structured entity disposal	24	-	-	(524 203)	-	-	524 203	-
Additional funding from the controlling shareholder	24	-	-	605 000	-	-	-	605 000
Balance as at 31 December 2016								
		3 634 812	1 581 956	3 504 300	1 099 037	-	6 832 757	16 652 862


Solovyev A.U.
 President




Sirazov M.R.
 Chief Accountant

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of cash flows

<i>in thousands of Russian Roubles</i>	2016	2015 (restated)
Cash flows from operating activities		
Interest received	28 965 004	28 029 570
Interest paid	(25 498 244)	(29 473 263)
Fees and commissions received	3 763 752	3 982 206
Fees and commissions paid	(886 675)	(658 793)
Net gains received from other securities at fair value through profit or loss	1 086 467	1 129 418
Net gains received from securities available-for-sale	389 175	-
Net (losses incurred)/gains received from trading in foreign currencies	(3 341 004)	6 780 662
Net gains received/(losses incurred) from operations with precious metals	21 157	(13 709)
Net gains from commodity trading	3 528 499	-
Administrative and other expenses paid	(7 533 765)	(5 804 176)
Income tax paid	(620 344)	(748 060)
Proceeds from assignment of loans	146 762	469 046
Other operating income received	1 162 481	211 046
Cash flows provided by operating activities before changes in operating assets and liabilities	1 183 265	3 903 947
(Increase)/decrease in operating assets		
Mandatory cash balances with the Bank of Russia	(754 781)	(17 931)
Other securities at fair value through profit or loss	(4 768 530)	(38 970 735)
Securities available-for-sale	10 000	(10 000)
Due from other banks	14 612 663	(864 689)
Loans and advances to customers	(19 293 799)	1 650 337
Finance lease receivables	500 705	(454 029)
Advances to real estate developers	1 000 411	(144 107)
Other assets	(6 347 803)	2 785 401
Receivables under commission and sale and purchase agreements of commodities and equipment	4 034 578	(9 479 583)
Assets held for sale	12 383	230 843
Increase/(decrease) in operating liabilities		
Due to other banks	30 251 617	41 835 324
Customer accounts	19 288 589	33 200 221
Promissory notes and deposit certificates in issue (included in debt securities in issue)	5 099 123	(6 622 573)
Other liabilities	3 805 038	(6 845 329)
Net cash flows provided by operating activities	48 633 459	20 197 097
Cash flows from investing activities		
Purchase of investment securities held to maturity	(100 732 846)	(15 087 909)
Proceeds from redemption of investment securities held to maturity	36 144 626	20 698 928
Proceeds from acquisition of subsidiary	929 096	-
Proceeds from disposal of subsidiaries	6 146 529	-
Acquisition of property and equipment	(3 449 141)	(404 136)
Proceeds from disposal of property and equipment	13 731	26 134
Acquisition of investment property	(383 800)	(180 697)
Proceeds from disposal of investment property	134	34 901
Acquisition of intangible assets	(114 330)	(56 078)
Net cash flows (used in)/provided by investing activities	(61 446 001)	5 031 143

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of cash flows

<i>in thousands of Russian Roubles</i>	Notes	2016	2015
Cash flows from financing activities			
Dividends paid		(17)	(342)
Additional funding from the controlling shareholder	24	605 000	-
Proceeds from bonds issued on domestic market (included in debt securities in issue)		2 113 827	5 479 346
Redemption/repurchase of bonds issued on domestic market (included in debt securities in issue)		(4 673 077)	(6 723 035)
Repayment of loan from the State Corporation Deposit Insurance Agency (included in other borrowed funds)		(781 760)	-
Proceeds from subordinated loans (included in other borrowed funds)		89 404	-
Repayment of subordinated loans (included in other borrowed funds)		(3 356 250)	-
Proceeds from syndicated loans (included in other borrowed funds)		3 014	-
Repayment of syndicated loans (included in other borrowed funds)		(432 428)	(391 401)
Net cash flows used in financing activities		(6 432 287)	(1 635 432)
Effect of exchange rate changes on cash and cash equivalents		(3 000 161)	(2 509 288)
Net (decrease)/increase in cash and cash equivalents		(22 244 990)	21 083 520
Cash and cash equivalents at the beginning of the reporting period		49 035 483	27 951 963
Cash and cash equivalents at the end of the reporting period	6	26 790 493	49 035 483

Solovyev A.U.
President



Sirazov M.R.
Chief Accountant

1 Introduction

These consolidated financial statements of Public Joint Stock Company “The Ural Bank for Reconstruction and Development” (the Bank) and its subsidiaries, structured entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a public joint-stock company set up in accordance with regulations of the Russian Federation.

Due to the coming into force from 1 September 2014 of the Federal law No. 99-FZ On modification of chapter 4 part one of the Civil code of the Russian Federation and on expire of separate provisions of acts of the Russian Federation dated 5 May 2014, the name of the Bank was changed. From 24 February 2015 a new full trade name of the Bank is Public Joint Stock Company “The Ural Bank for Reconstruction and Development” (short trade name is UBRD, PJSC). The previous full trade name is Joint Stock Company “The Ural Bank of Reconstruction and Development” (short trade name of UBRD, JSC).

Principal activity. The Bank’s principal business activity is commercial and retail banking transactions within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the Bank of Russia) on 16 August 2012. Due to the change of the Bank’s trade name the license was renewed on 6 February 2015. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law No.177-FZ On deposits of individuals insurance in Russian Federation as at 23 December 2003 (as amended on 3 July 2016). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 1 400 thousand per individual in case of the withdrawal of a license of a bank or Bank of Russia imposed moratorium on payments.

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

As at 31 December 2016 and 2015 the ultimate controlling parties of the Bank are Mr. I.A. Altushkin, Mr. V.V. Pechenenko, Mr. A.V. Semkin, Mr. S.V. Skubakov and Mrs. I.N. Gayvoronskaya.

The Bank has 13 (2015: 13) branches and 156 (2015: 154) additional and operational offices in the Russian Federation.

The average number of employees during 2016 was 5 771 (2015: 4 682).

Registered address and place of business. The Bank’s registered address and place of business is 620014, 67, Sacco and Vanzetti St., Yekaterinburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand).

2 Operating environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this country. The Government continues implementation of economic reforms and development of its legal, tax and regulatory legislation. Current actions of the Government are focused on modernization of the Russian economy, aimed at increasing productivity and product quality, as well as increasing the share of industries producing high-tech products and services. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The stability of the Russian economy in the future is dependent significantly upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2016 low oil prices, political uncertainty in the region and international sanctions related to certain companies and individuals had a significant influence on Russian economy. These factors resulted in economic decline, so GDP was decreasing. The weakening of the Russian national currency in relation to the main world currencies observed in January 2016, followed by its strengthening in mid-February 2016 stemmed from oil prices recovery and was supported by moderately tight monetary policy of the Bank of Russia. In 2016 USD/RUB rate decreased by 17% to 60,6569 RUB/USD (as at 1 January 2017) , EUR/RUB rate – by 20% to 63,8111 RUB/EUR. The key rate of 11% was left unchanged till June 2016. However, during the first half-year an increase in the stability of the Russian economy to fluctuations in oil prices, slowing inflation, a decline in inflation expectations were occurred. This allowed the Bank of Russia to lower the key rate to 10.5% in June 2016. In September the key rate was also decreased by 0.5%, with intention to support it at this level till 2016 year end and to decrease it in I-II quarter 2017 in case of continuing stabilization in commodity markets. The Bank of Russia also continues to decrease the number of credit institutions. So, this number was decreased from 733 to 623 in 2016. In September 2016 Standard & Poor's rating agency has improved its outlook for Russia's sovereign credit rating from “Negative” to “Stable”, confirming its long-term foreign currency credit rating at “BB+”, that is below the investment level. According to the Ministry of Economic Development of the Russian Federation in 2016 banking sector assets decreased by 3.5%, however, this decrease was followed by improvement in assets' structure. Among sources of formation of resource base of banks the role of individuals' deposits has significantly increased. The amount of these deposits increased by 4.2%, and the amount of deposits and current accounts of legal entities decreased by 10.1%.

There is still uncertainty about the future growth of the Russian economy and the ability of the Group and its counterparties to raise new borrowings at reasonable rates, which in turn can affect the financial position, results of operations and business prospects. As the Russian economy is sensitive to the negative trends on the global markets, there is still a risk of increased volatility on the Russian financial markets. Despite this, management believes that in the current situation they have taken all necessary measures to support the sustainability and growth of the business. The Consolidated Financial Statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

3 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in accordance with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of land and premises. Over 6% (31 December 2015: 7%) of equity is represented by revaluation reserve for property and equipment. As at 1 December 2015 by the management decision assessment of fair value of property was carried out by the independent appraiser (see Note 13). As at 31 December 2016 the Group analysed price dynamics on the office property market in 2016. Based on the results of the analysis there were no significant changes in fair value of land and premises during stated periods, so no revaluation was made as at 31 December 2016.

Impairment losses on loans and advances to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and leases before the decrease can be identified with an individual loan or lease in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (see Notes 11, 12).

Structured entities. Information on professional judgements in respect of assessment of control over structured entities is disclosed in Note 36.

Fee and commission income from the sale of package of banking services. Information on the basis on which this commission income is recognised in profit or loss is disclosed in Note 39.

4 Change of accounting policies and comparative data representation

The Group has applied amendments and interpretations to the standards with the date of initial application as of 1 January 2016 as following:

- Disclosure Initiatives – amendments to IAS 1 *Presentation of Financial Statements*.

These amendments clarify certain IAS 1 aspects in order to eliminate issues in current requirements to information disclosure. This Standard deals with aggregation and disaggregation matters, permits changes in explanatory notes and financial statements resulting in aggregation of information that is not material.

Due to application of new amendments, the Group has adjusted information disclosed in these consolidated financial statements, and presented comparative data as following:

- in the consolidated statement of financial position:

- "Loans and advances to customers" line was disaggregated to "Loans and advances to customers – legal entities" and "Loans and advances to customers – individuals";
- "Customer accounts" line was disaggregated to "Customer accounts – legal entities" and "Customer accounts - individuals";
- "Derivatives" line has been presented separately from "Other assets" line;
- Receivables on conversion operations were reclassified from "Other assets" to "Loans and advances to customers – legal entities" according to economic substance;
- "Finance lease receivables", "Current income tax asset", "Deferred tax asset", "Goodwill", "Intangible assets", "Advances to real estate developers", "Assets held for sale" were aggregated within "Other assets" line;
- "Current income tax liability", "Deferred tax liability" were aggregated within "Other liabilities" line;

4 Change of accounting policies and comparative data representation (continued)

- in the consolidated statement of profit or loss:

- in the consolidated statement of profit or loss "Gains/(losses) arising from operations with precious metals", "Rental income", "Gains/(losses) from property and equipment revaluation", "Gains/(losses) from investment property" operations were aggregated within "Other operating income" line;
- "Repayment of loans previously written off against provision" line has been presented separately from "Other operating income".

The table below provides information on adjustments made in consolidated statement of financial position:

<i>in thousands of Russian Roubles</i>	Balance as at 1 January 2016 (previously reported)	<i>in thousands of Russian Roubles</i>	Balance as at 1 January 2016 (restated)
ASSETS			
Loans and advances to customers	145 256 113	Loans and advances to customers- legal entities	100 729 502
		Loans and advances to customers- individuals	45 318 027
Finance lease receivables	1 818 904		
Current income tax asset	457 404	Other assets	
Deferred tax asset	655 728		
Goodwill	162 122		8 455 293
Intangible assets	256 030		
Advances to real estate developers	1 448 581	Derivatives	
Assets held for sale	782 418		
Other assets	12 076 207		8 410 685
LIABILITIES			
Customer accounts	189 554 871	Customer accounts-legal entities	48 035 961
		Customer accounts-individuals	141 518 910
Current income tax liability	12 127		
Deferred tax liability	1 422 438	Other liabilities	
Other liabilities	2 357 191		3 791 756

The table below provides information on adjustments made in consolidated statement of profit or loss.

<i>in thousands of Russian Roubles</i>	2015 (previously reported)	<i>in thousands of Russian Roubles</i>	2015 (restated)
Gains/(losses) arising from operations with precious metals	(49 674)		
Rental income	14 199	Other operating income	31 171
Gains/(losses) from property and equipment revaluation	(15 058)		
Gains/(losses) from investment property	(27 086)	Repayment of loans previously written off against provision	56 444
Other operating income	165 234		

4 Change of accounting policies and comparative data representation (continued)

Within the strategy aimed to decrease the share of high-risk loans, the classification of Loans and advances to customers – individuals was revised by the Group as following:

- “Express loans” category was eliminated;
- new categories such as “Loans to loyal customers” and “Credit card” were added.

Adjusted comparative data are presented in Note 12.

5 New or revised standards and interpretations

A number of 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 financial position and performance. The Group plans to adopt these pronouncements when they become effective. Analysis of possible impact of new standards on consolidated financial statement of the Group has not been performed yet.

IFRS 9 *Financial Instruments*, published in July 2014, is effective for annual periods beginning on or after 1 January 2018. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. Key features of the new standard are:

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

5 New or revised standards and interpretations (continued)

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

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

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will disclose this information in the consolidated financial statements for 2017 year.

6 Cash and cash equivalents

<i>in thousands of Russian Roubles</i>	2016	2015
Balances with the Bank of Russia (other than mandatory cash balances)	12 181 351	12 485 516
Placements with other banks with original maturities of less than three months	5 177 860	6 802 802
Cash on hand	4 956 744	5 609 988
Agreements for purchase and re-sale of the securities to other banks with original maturities of less than three months	2 394 498	6 586 842
Correspondent accounts and overnight placements with banks:		
- Russian Federation	1 418 152	2 940 758
- other countries	83 331	13 184 448
Settlement accounts with trading systems	578 557	1 425 129
Total	26 790 493	49 035 483

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks with ratings from "not rated" to "A-" (31 December 2015: ratings from "not rated" to "A-"). The ratings are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's. Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31.

7 Other securities at fair value through profit or loss

<i>in thousands of Russian Roubles</i>	2016	2015
Corporate eurobonds	41 949 269	50 460 455
Russian government bonds	12 382 781	134 461
Corporate bonds	839 014	944 138
Total	55 171 064	51 539 054

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these investments based on their fair value in accordance with a documented strategy.

As at 31 December 2016 corporate eurobonds are represented by the securities issued by the foreign companies with face value in USD. The repayment periods of these bonds are from February 2017 till April 2021, the coupon yield is from 3.18% to 7.87% p.a. and market yield to maturity as at 31 December 2016 is from 1.57% to 4.60% p.a. depending on the type of bond issue.

As at 31 December 2016 corporate bonds are represented by the securities issued by the company from transport sector with face value in Russian roubles. The repayment period of these bonds is June 2032, the coupon yield is up to 9.4% p.a. and market yield to maturity as at 31 December 2016 is 10.63% p.a. depending on the type of bond issue.

As at 31 December 2016 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. The repayment periods of these bonds are from October 2018 till September 2031, the coupon yield is from 6.4% to 11.90% p.a. and market yield to maturity as at 31 December 2016 is from 8.32% to 10.88% p.a.

As at 31 December 2015 corporate eurobonds are represented by the securities issued by the foreign companies with face value in USD. The repayment periods of these bonds are from May 2016 till April 2021, the coupon yield is from 3.16% to 7.87% p.a. and market yield to maturity as at 31 December 2015 is from 3.93% to 6.92% p.a. depending on the type of bond issue.

As at 31 December 2015 corporate bonds are represented by the securities issued by the company from transport sector with face value in Russian roubles. The repayment period of these bonds is June 2032, the coupon yield is up to 17.90% p.a. and market yield to maturity as at 31 December 2015 is 15.8% p.a. depending on the type of bond issue.

As at 31 December 2015 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds mature in October 2018, the coupon yield is up to 12.20% p.a. and market yield to maturity as at 31 December 2015 is 7.06% p.a.

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

<i>in thousands of Russian Roubles</i>	Corporate eurobonds	Corporate bonds	Russian government bonds	Total
- Rated from BBB- to BBB+	15 581 445	839 014	12 382 781	28 803 240
- Rated from BB- to BB+	26 367 824	-	-	26 367 824
Total	41 949 269	839 014	12 382 781	55 171 064

7 Other securities at fair value through profit or loss (continued)

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

<i>in thousands of Russian Roubles</i>	Corporate eurobonds	Corporate bonds	Russian government bonds	Total
- Rated from BBB- to BBB+	19 434 675	944 138	134 461	20 513 274
- Rated from BB- to BB+	31 025 780	-	-	31 025 780
Total	50 460 455	944 138	134 461	51 539 054

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

The table below shows carrying amount of other securities at fair value through profit or loss pledged under sale and repurchase agreements as at 31 December 2016 and 2015 (see Note 17).

<i>in thousands of Russian Roubles</i>	2016	2015
Corporate eurobonds	41 949 269	47 061 536
Russian government bonds	11 885 936	-
Corporate bonds	839 014	944 138
Total	54 674 219	48 005 674

Geographical, currency, maturity and interest rate analyses of other securities at fair value through profit and loss are disclosed in Note 31.

8 Securities available-for-sale

<i>in thousands of Russian Roubles</i>	2016	2015
Corporate shares	-	10 000
Total	-	10 000

As at 31 December 2015 corporate shares were represented by shares of the JSC “VUZ-Bank”(see Note 37).

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

<i>in thousands of Russian Roubles</i>	2015
- Not rated	10 000
Total	10 000

Securities available-for-sale are not pledged under sale and repurchase agreements as at 31 December 2015.

Geographical, currency and maturity analyses of securities available-for-sale are disclosed in Note 31.

9 Investment securities held to maturity

<i>in thousands of Russian Roubles</i>	2016	2015
Russian government bonds	73 219 547	10 145 260
Corporate bonds	15 651 763	23 183 935
Municipal bonds	1 482 529	872 172
Total investment securities held to maturity before allowance for impairment	90 353 839	34 201 367
Allowance for impairment	(455 523)	(462 386)
Total	89 898 316	33 738 981

As at 31 December 2016 corporate bonds are represented by the securities issued by the mortgage lending agency, Russian corporation of nanotechnologies, banks and financial institutions, the companies operating in telecommunications sectors with face value in Russian roubles. These bonds have maturity dates ranging from December 2017 till September 2032, the coupon yield is from 9.4% to 13.0% p.a. and market yield to maturity as at 31 December 2016 is from 0% to 13.14% depending on the type of the bond issue.

As at 31 December 2016 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds have maturity dates ranging from April 2017 till January 2028, the coupon yield is from 6.4% to 11.9% p.a. and market yield to maturity as at 31 December 2016 is from 8.32% to 10.88% p.a.

As at 31 December 2016 municipal bonds are represented by the securities with face value in Russian roubles issued by administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tomsk areas. These bonds have maturity dates ranging from August 2017 till July 2021, the coupon yield is from 8.0% to 12.4% p.a. and market yield to maturity as at 31 December 2016 is from 8.74% to 9.60% p.a.

As at 31 December 2015 corporate bonds are represented by the securities issued by the mortgage lending agency, Russian corporation of nanotechnologies, banks and financial institutions, the companies operating in telecommunications, transport, oil and gas sectors with face value in Russian roubles. These bonds have maturity dates ranging from February 2016 till September 2032, the coupon yield is from 7.5% to 18.3% p.a. and market yield to maturity as at 31 December 2015 is from 7.88% to 16.85% depending on the type of the bond issue.

As at 31 December 2015 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds have maturity dates ranging from March 2023 till January 2028, the coupon yield is from 7.0% to 8.15% p.a. and market yield to maturity as at 31 December 2015 is from 9.51% to 9.77% p.a.

As at 31 December 2015 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of the Republic of Sakha (Yakutia), administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tver areas. These bonds have maturity dates ranging from May 2016 till June 2020, the coupon yield is from 7.49% to 12.4% p.a. and market yield to maturity as at 31 December 2015 is from 9.57% to 12.32% p.a.

Movements in the allowance for impairment for investment securities held to maturity are as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Allowance for impairment as at 1 January	462 386	-
Charge of provision	1 031 807	1 097 649
Write-offs	(1 038 670)	(635 263)
Allowance for impairment as at 31 December	455 523	462 386

9 Investment securities held to maturity (continued)

Analysis by credit quality of investment securities held to maturity less allowance for impairment outstanding at 31 December 2016 is as follows:

<i>in thousands of Russian Roubles</i>	Corporate bonds	Russian government bonds	Municipal bonds	Total
- Rated from BBB- to BBB+	8 214 368	73 219 547	-	81 433 915
- Rated from BB- to BB+	5 888 155	-	1 482 529	7 370 684
- Rated from B- to B+	1 032 080	-	-	1 032 080
- Not rated	61 637	-	-	61 637
Total	15 196 240	73 219 547	1 482 529	89 898 316

Analysis by credit quality of investment securities held to maturity less allowance for impairment outstanding at 31 December 2015 is as follows:

<i>in thousands of Russian Roubles</i>	Corporate bonds	Russian government bonds	Municipal bonds	Total
- Rated from BBB- to BBB+	12 034 370	10 145 260	63 082	22 242 712
- Rated from BB- to BB+	7 523 731	-	809 090	8 332 821
- Rated from B- to B+	3 058 387	-	-	3 058 387
- Not rated	105 061	-	-	105 061
Total	22 721 549	10 145 260	872 172	33 738 981

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

Analysis by credit quality of investment securities held to maturity is as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Not overdue receivables	89 836 679	34 201 367
Overdue receivables	517 160	-
- overdue 211-360 days	517 160	-
Total investment securities held to maturity before allowance for impairment	90 353 839	34 201 367
Allowance for impairment	(455 523)	(462 386)
Total	89 898 316	33 738 981

9 Investment securities held to maturity (continued)

The table below shows carrying amount of investment securities held to maturity pledged under sale and repurchase agreements as at 31 December 2016 and 2015 (see Note 17).

<i>in thousands of Russian Roubles</i>	2016	2015
Russian government bonds	71 797 401	9 860 924
Corporate bonds	15 134 611	21 062 695
Municipal bonds	1 482 529	872 173
Total	88 414 541	31 795 792

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 31.

10 Due from other banks

<i>in thousands of Russian Roubles</i>	2016	2015
Short-term placements with other banks with original maturities of more than three months	1 134 043	5 446 681
Other allocated funds	2 221 079	1 082 649
Allowance for impairment	(4 580)	(4 580)
Total	3 350 542	6 524 750

At 31 December 2016 and 2015 short-term placements with other banks are represented by the current term deposits and promissory notes of other banks with face value in Russian roubles placed in the Russian Federation. Other allocated funds are represented by individual clearing collateral for operations in currency and stock markets

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2016 is as follows:

<i>in thousands of Russian Roubles</i>	Short-term placements with other banks with original maturities of more than three months	Other allocated funds	Total
- Rated from A- to A+	871 848	-	871 848
- Rated from BBB- to BBB+	-	2 221 079	2 221 079
- Not rated	262 195	-	262 195
Total due from other banks before allowance for impairment	1 134 043	2 221 079	3 355 122

10 Due from other banks (continued)

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2015 is as follows:

<i>in thousands of Russian Roubles</i>	Short-term placements with other banks with original maturities of more than three months	Other allocated funds	Total
- Rated from A- to A+	491 164	-	491 164
- Rated from BBB- to BBB+	4 534 367	1 082 649	5 617 016
- Rated from B- to B+	416 570	-	416 570
- Not rated	4 580	-	4 580
Total due from other banks before allowance for impairment	5 446 681	1 082 649	6 529 330

As at 31 December 2015 the Group has 1 counterparty with balances over RUB 1 000 000 thousand. The aggregate balances from this counterparty as at 31 December 2015 amount to RUB 3 659 774 thousand or 56% of total balances from other banks.

As at 31 December 2016 the Group has no counterparties with balances over RUB 1 000 000 thousand

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's. Due from other banks are not collateralised.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31.

11 Loans and advances to customers - legal entities

<i>in thousands of Russian Roubles</i>	2016	2015
Loans to legal entities		
- Related parties	8 017 760	11 225 299
- Corporate loans	97 442 515	85 698 705
- Small and medium-sized businesses	2 775 448	4 863 160
- Loans of JSC “VUZ-bank”	7 306 067	-
Receivables on conversion operations	13 249 141	791 416
Total loans and advances to customers – legal entities before allowance for impairment	128 790 931	102 578 580
Allowance for impairment	(850 025)	(1 849 078)
Total	127 940 906	100 729 502

11 Loans and advances to customers - legal entities (continued)

The table below provides information on structure of Loans and advances to customers – legal entities of JSC “VUZ-bank”:

<i>in thousands of Russian Roubles</i>	2016
Loans to legal entities	
- Related parties	661 989
- Corporate loans	6 257 375
- Small and medium-sized businesses	386 703
Total loans and advances to customers – legal entities before allowance for impairment	7 306 067
Allowance for impairment	(101 858)
Total	7 204 209

Information concerning the loans and advances to customers – legal entities transferred without derecognition is represented in Note 17.

Movements in the allowance for impairment for loans and advances to customers – legal entities during 2016 financial year are as follows:

<i>in thousands of Russian Roubles</i>	Related parties	Corporate loans	Small and medium-sized businesses	Loans of JSC “VUZ-bank”	Total
Allowance for impairment as at 1 January 2016	36 791	608 511	1 203 776	-	1 849 078
(Recovery)/charge of provision	(6 912)	(17 140)	193 118	111 540	280 606
Write-offs	-	(288 310)	(981 667)	(9 682)	(1 279 659)
Allowance for impairment as at 31 December 2016	29 879	303 061	415 227	101 858	850 025

Movements in the allowance for impairment for loans and advances to customers – legal entities during 2015 financial year are as follows:

<i>in thousands of Russian Roubles</i>	Related parties	Corporate loans	Small and medium-sized businesses	Total
Allowance for impairment as at 1 January 2015	29 255	723 614	2 284 292	3 037 161
Charge of provision	7 536	153 302	930 204	1 091 042
Write-offs	-	(268 405)	(2 010 720)	(2 279 125)
Allowance for impairment as at 31 December 2015	36 791	608 511	1 203 776	1 849 078

11 Loans and advances to customers - legal entities (continued)

Key assumptions and judgments for estimating the loan impairment

Loans and advances to customers – legal entities

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.

The objective indicators of loan impairment for loans to legal entities include the following:

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

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate, equipment and vehicles. For loans not assessed on an individual basis valuations for real estate are estimated at market value with discount rates from 0.2 to 0.4
- the historic actual recovery rate of loans overdue more than 90 days was taken into account when estimating future recoveries on overdue loans including economic sectors specifics
- the value of real estate, equipment and vehicle collateral used in discounted future cash flows for the calculation of the allowance on individually assessed impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

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 loan impairment allowance on loans to legal entities as at 31 December 2016 would be lower/higher than RUB 1 279 409 thousand (31 December 2015: RUB 1 007 295 thousand).

The loan portfolio structure by economic sectors as at 31 December is as follows:

<i>in thousands of Russian Roubles</i>	2016		2015	
	Amount	%	Amount	%
Trade	51 698 813	40.1	50 853 291	49.6
Metallurgy and metals trade	25 618 745	19.9	23 087 660	22.5
Services	14 025 919	10.9	9 946 804	9.7
Manufacturing	13 295 754	10.3	8 708 800	8.5
Construction	7 958 219	6.2	4 426 709	4.3
Loans of JSC “VUZ-bank”	7 306 067	5.7	-	-
Leasing	3 639 615	2.8	10 343	-
Other	5 247 799	4.1	5 544 973	5.4
Total loans and advances to customers before allowance for impairment	128 790 931	100.0	102 578 580	100.0

11 Loans and advances to customers - legal entities (continued)

The loan portfolio structure by economic sectors of JSC “VUZ-Bank” as at 31 December is as follows:

<i>in thousands of Russian Roubles</i>	2016	
	Amount	%
Construction	1 946 769	26.6
Metallurgy and metals trade	1 352 476	18.5
Manufacturing	1 297 817	17.8
Trade	1 009 750	13.8
Services	679 877	9.3
Leasing	369 291	5.1
Other	650 087	8.9
Total loans and advances to customers before allowance for impairment	7 306 067	100.0

As at 31 December 2016 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 8 679 749 thousand, or 5% of the gross loan portfolio (31 December 2015: RUB 11 225 299 thousand, or 7% of the gross loan portfolio).

At 31 December 2016 the Group has 22 borrowers (31 December 2015: 16 borrowers) with aggregated loan amounts above RUB 1 500 000 thousand. The total aggregate amount of these loans is RUB 85 279 237 thousand (31 December 2015: RUB 77 322 384), or 52% (31 December 2015: 49%) of the gross loan portfolio.

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

	Related parties	Corporate loans	Small and medium-sized businesses	Loans of JSC “VUZ-bank”	Total loans to legal entities
<i>in thousands of Russian Roubles</i>					
Loans to legal entities					
Current and individually not impaired	8 017 760	110 363 751	1 297 421	7 200 786	126 879 718
overdue:	-	327 905	1 478 027	105 281	1 911 213
- loans overdue less than 30 days	-	6 020	98 131	96 845	200 996
- loans overdue 31 to 90 days	-	-	75 922	7 293	83 215
- loans overdue 91 to 180 days	-	30 186	90 228	798	121 212
- loans overdue 181 to 360 days	-	-	257 773	345	258 118
- loans overdue over 360 days	-	291 699	955 973	-	1 247 672
Total loans to legal entities before allowance for impairment	8 017 760	110 691 656	2 775 448	7 306 067	128 790 931
Allowance for impairment	(29 879)	(303 061)	(415 227)	(101 858)	(850 025)
Total	7 987 881	110 388 595	2 360 221	7 204 209	127 940 906
Allowance for impairment to gross loans, %	0.37	0.27	14.96	1.39	0.66

11 Loans and advances to customers - legal entities (continued)

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

<i>in thousands of Russian Roubles (restated)</i>	Related parties	Corporate loans	Small and medium- sized businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	11 225 299	85 773 156	2 241 010	99 239 465
overdue:	-	716 965	2 622 150	3 339 115
- loans overdue less than 30 days	-	55 991	174 601	230 592
- loans overdue 31 to 90 days	-	-	183 179	183 179
- loans overdue 91 to 180 days	-	-	236 355	236 355
- loans overdue 181 to 360 days	-	59 641	847 602	907 243
- loans overdue over 360 days	-	601 333	1 180 413	1 781 746
Total loans to legal entities before allowance for impairment	11 225 299	86 490 121	4 863 160	102 578 580
Allowance for impairment	(36 791)	(608 511)	(1 203 776)	(1 849 078)
Total	11 188 508	85 881 610	3 659 384	100 729 502
Allowance for impairment to gross loans, %	0.33	0.70	24.75	1.80

The Group assesses the credit quality of current and not impaired loans to legal entities by analysing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower
- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower
- the borrower is not sued for defaults on loans granted by other credit institutions
- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

Current and individually not impaired loans to legal entities are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as overdue under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual installments that are overdue.

Analysis of collateral

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. The fair value of the collateral is determined by the Risk Department of the Bank based on market data and internal guidelines of the Group. As part of the assessment the comparative method is mainly used. The fair value of commodities in circulation is determined on the date of the loan by the Risk Department of the Bank and is not subsequently updated.

11 Loans and advances to customers - legal entities (continued)

The fair value of collateral in respect of loans to legal entities as at 31 December 2016 is described below.

Loans without collateral and unsecured portions of partially secured exposures are presented in the category “No collateral or other credit enhancement”.

Corporate guarantees represented in the tables below are unrated at the international level. These guarantees are represented by large and medium sized Russian and international companies in trading, production, construction, metallurgy and other industries.

The table below provides information on loans to legal entities presented in the category “No collateral or other credit enhancement”, assessed individually, with high level of creditworthiness.

	Carrying amount of loans to customers	Fair value of collateral (for collateral assessed as at reporting date)	Fair value of collateral (for collateral assessed as at loan inception date)
<i>in thousands of Russian Roubles</i>			
Current and individually not impaired			
Securities	7 905 080	7 109 187	795 893
Real estate	10 031 284	9 978 754	52 530
Motor vehicles	337 401	163 500	173 901
Finished goods and inventories	854 674	802 091	52 583
Equipment	2 206 832	1 917 385	289 447
Property rights	13 301 846	12 971 126	330 720
Deposits	50 000	50 000	-
Corporate guarantees	17 935 790	-	-
Guarantees of individuals	1 101 703	-	-
No collateral or other credit enhancement	72 954 912	-	-
Total	126 679 522	32 992 043	1 695 074
Overdue			
Real estate	754 149	714 887	39 262
Motor vehicles	349 882	142 129	207 753
Equipment	10 064	4 712	5 352
Finished goods and inventories	600	598	2
Corporate guarantees	7 250	-	-
Guarantees of individuals	25 979	-	-
No collateral or other credit enhancement	113 460	-	-
Total	1 261 384	862 326	252 369
Total loans to legal entities net of allowance for impairment	127 940 906	33 854 369	1 947 443

11 Loans and advances to customers - legal entities (continued)

The fair value of collateral in respect of loans to corporate customers as at 31 December 2015 is as follows:

<i>in thousands of Russian Roubles (restated)</i>	Carrying amount of loans to customers	Fair value of collateral (for collateral assessed as at reporting date)	Fair value of collateral (for collateral assessed as at loan inception date)
Current and individually not impaired			
Securities	11 481 748	11 481 748	-
Real estate	6 742 703	6 742 703	-
Motor vehicles	430 919	310 465	120 454
Finished goods and inventories	460 779	430 417	30 362
Equipment	2 157 712	2 075 942	81 770
Property rights	4 116 870	3 496 770	620 100
Share of the charter capital	2 827 366	2 827 366	-
Deposits	300 000	300 000	-
Corporate guarantees	14 653 529	-	-
Guarantees of individuals	1 031 336	-	-
No collateral or other credit enhancement	54 876 490	-	-
Total	99 079 452	27 665 411	852 686
Overdue			
Real estate	857 742	854 397	3 345
Motor vehicles	401 873	194 401	207 472
Equipment	15 850	11 788	4 062
Finished goods and inventories	10	-	10
Corporate guarantees	37 050	-	-
Guarantees of individuals	71 984	-	-
No collateral or other credit enhancement	265 541	-	-
Total	1 650 050	1 060 586	214 889
Total loans to legal entities net of allowance for impairment	100 729 502	28 725 997	1 067 575

The tables above exclude the effects of over collateralisation.

The recoverability of current and individually not impaired loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral. The current value of the collateral does not impact the impairment assessment.

The actual net realisable value of the collateral on loans to legal entities can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers – legal entities are disclosed in Note 31. Information on related party transactions is disclosed in Note 38.

12 Loans and advances to customers - individuals

<i>in thousands of Russian Roubles</i>	2016	2015 (restated)
Loans to individuals		
Loans to loyal customers	11 867 753	12 973 065
Loans to employees participating in payroll projects	7 752 383	7 129 333
Unsecured consumer loans	23 617 296	30 302 064
Collateralised consumer loans	3 552 643	3 225 003
Credit cards	939 026	2 027 143
Loans of JSC “VUZ-bank”	2 210 303	-
Total loans to individuals	49 939 404	55 656 608
Allowance for impairment	(8 321 433)	(10 338 581)
Total	41 617 971	45 318 027

The table below provides information on loan portfolio structure of JSC “VUZ-bank”:

<i>in thousands of Russian Roubles</i>	2016
Loans to individuals	
Loans to loyal customers	75 680
Loans to employees participating in payroll projects	200 060
Unsecured consumer loans	1 253 421
Credit cards	681 142
Total loans to individuals	2 210 303
Allowance for impairment	(339 726)
Total	1 870 577

Information concerning the loans and advances to customers – individuals transferred without derecognition is represented in Note 17.

In 2016 the Group sold under assignment agreements loan receivables from individuals overdue over 360 days with the total loan amount before impairment allowance of RUB 3 432 027 thousand (2015: RUB 2 330 705 thousand). The allowance for impairment of these receivables at the date of sale was RUB 3 079 223 thousand (2015: RUB 2 027 232 thousand). Receipts from sale of these loans are RUB 146 745 thousand (2015: RUB 54 934 thousand), the loss on these operations recognised in the consolidated statement of profit or loss for 2016 is RUB 206 059 thousand (2015: loss RUB 248 539 thousand).

12 Loans and advances to customers - individuals (continued)

Movements in the allowance for impairment for loans to individuals during 2016 financial year are as follows:

<i>in thousands of Russian Roubles</i>	as at 1 January 2016	Charge of provision	Write-offs	as at 31 December 2016
Loans to loyal customers	1 038 417	884 801	(1 147 161)	776 057
Loans to employees participating in payroll projects	298 193	267 028	(297 225)	267 996
Unsecured consumer loans	8 481 792	4 297 492	(6 149 843)	6 629 441
Collateralised consumer loans	85 110	58 246	(8 431)	134 925
Credit cards	435 069	152 578	(414 359)	173 288
Loans of JSC “VUZ-bank”	-	339 726	-	339 726
Total	10 338 581	5 999 871	(8 017 019)	8 321 433

Movements in the allowance for impairment for loans to individuals during 2015 financial year are as follows:

<i>in thousands of Russian Roubles (restated)</i>	as at 1 January 2015	Charge of provision	Write-offs	as at 31 December 2015
Loans to loyal customers	1 283 554	1 298 854	(1 543 991)	1 038 417
Loans to employees participating in payroll projects	222 498	316 732	(241 037)	298 193
Unsecured consumer loans	8 757 528	9 684 040	(9 959 776)	8 481 792
Collateralised consumer loans	117 535	72 919	(105 344)	85 110
Credit cards	672 263	464 345	(701 539)	435 069
Total	11 053 378	11 836 890	(12 551 687)	10 338 581

Loans to individuals

The Group estimates loan impairment for loans to individuals 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 individuals include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months
- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance of loans and advances to customers – individuals. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2016 would be lower/higher than RUB 416 180 thousand (31 December 2015: RUB 453 180 thousand).

12 Loans and advances to customers - individuals (continued)

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

	Loans to loyal customers	Loans to employee- es participa- ting in payroll projects	Unsecured consumer loans	Collatera- lised consumer loans	Credit cards	Loans of JSC “VUZ- bank”	Total loans to individuals
<i>in thousands of Russian Roubles</i>							
Loans to individuals							
Current and not overdue:	10 580 491	7 268 415	14 229 621	3 317 105	657 963	1 747 951	37 801 546
- with credit history of less than 90 days	373 106	298 710	1 827 357	358 360	127 992	-	2 985 525
- with credit history of more than 90 days	10 207 385	6 969 705	12 402 264	2 958 745	529 971	1 747 951	34 816 021
Overdue:	1 287 262	483 968	9 387 675	235 538	281 063	462 352	12 137 858
- loans overdue less than 30 days	262 023	156 397	1 338 100	98 821	33 648	84 049	1 973 038
- loans overdue 31 to 90 days	184 740	69 717	877 806	10 076	41 109	49 129	1 232 577
- loans overdue 91 to 210 days	343 069	100 056	3 094 390	40 136	103 454	123 272	3 804 377
- loans overdue 211 to 360 days	401 472	141 537	3 413 156	22 327	79 105	121 067	4 178 664
- loans overdue over 360 days	95 958	16 261	664 223	64 178	23 747	84 835	949 202
Total loans to individuals before allowance for impairment	11 867 753	7 752 383	23 617 296	3 552 643	939 026	2 210 303	49 939 404
Allowance for impairment	(776 057)	(267 996)	(6 629 441)	(134 925)	(173 288)	(339 726)	(8 321 433)
Total	11 091 696	7 484 387	16 987 855	3 417 718	765 738	1 870 577	41 617 971
Allowance for impairment to gross loans, %	6.54	3.46	28.07	3.80	18.45	15.37	16.66

12 Loans and advances to customers - individuals (continued)

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

<i>in thousands of Russian Roubles (restated)</i>	Loans to loyal customers	Loans to employees participa- ting in payroll projects	Unsecured consumer loans	Collaterali- sed consumer loans	Credit cards	Total loans to individuals
Loans to individuals						
Current and not overdue:	10 691 937	6 520 122	16 430 302	3 058 361	1 266 054	37 966 776
- with credit history of less than 90 days	687 565	728 179	4 052 318	1 556 335	10 244	7 034 641
- with credit history of more than 90 days	10 004 372	5 791 943	12 377 984	1 502 026	1 255 810	30 932 135
Overdue:	2 281 129	609 211	13 871 761	166 642	761 089	17 689 832
- loans overdue less than 30 days	308 707	156 878	1 384 697	68 486	89 936	2 008 704
- loans overdue 31 to 90 days	387 266	106 522	3 385 602	12 098	110 318	4 001 806
- loans overdue 91 to 210 days	478 102	132 052	3 369 788	21 857	182 999	4 184 798
- loans overdue 211 to 360 days	852 667	169 529	4 716 086	4 221	256 224	5 998 727
- loans overdue over 360 days	254 387	44 230	1 015 588	59 980	121 612	1 495 797
Total loans to individuals before allowance for impairment	12 973 066	7 129 333	30 302 063	3 225 003	2 027 143	55 656 608
Allowance for impairment	(1 038 417)	(298 193)	(8 481 792)	(85 110)	(435 069)	(10 338 581)
Total	11 934 649	6 831 140	21 820 271	3 139 893	1 592 074	45 318 027
Allowance for impairment to gross loans, %	8.00	4.18	27.99	2.64	21.46	18.58

For credit risk minimisation purposes, the loans to individuals are divided into the following types: «Loans to loyal customers», «Loans to employees participating in payroll projects», «Collateralised consumer loans», «Unsecured consumer loans» and «Credit card». Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The customer loyalty programme was developed for client with positive credit history in the Bank.

The Group assesses the loans to individuals as current and not impaired if there is no overdue amount as at the reporting date, and no evidence that individuals will not be able to meet their obligations to repay of the loans in full and on time.

The amount reported as overdue under loan agreements of individuals is the outstanding balance of such loans, not only the individual installments that are overdue.

12 Loans and advances to customers - individuals (continued)

Analysis of collateral

Loans to individuals are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors market prices with the same frequency as for loans issued to legal entities and adjusts the fair value of collateral if significant changes in market prices are observed.

The Group performs a valuation of the fair value of collateral for impaired loans to retail customers also every six months, using the same methods as for corporate loans.

Loans to individuals secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in “Collateralised consumer loans”. Loans to individuals included in “Express loans” and “Loans to employees participating in payroll projects” are not secured.

The analysis of the fair value of collateral in respect of loans to individuals overdue more than 30 days as at 31 December 2016 and 2015 is as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Loans to individuals		
Real estate	68 782	41 940
Motor vehicles	15 885	3 401
Other collateral	16 657	15 010
Total	101 324	60 351

The tables above show the fair value of collateral excluding the effects of over collateralisation.

As at 31 December 2016, for collateralised consumer loans that are not overdue or overdue less than 30 days management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The actual net realisable value of the collateral on loans to legal entities and individuals can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower’s property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers – individuals are disclosed in Note 31. Information on related party transactions is disclosed in Note 38.

13 Property and equipment

	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
<i>in thousands of Russian Roubles</i>					
Cost or valuation as at 1 January 2015		4 260 745	2 836 851	67 832	7 165 428
Accumulated depreciation		(259 107)	(1 133 353)	-	(1 392 460)
Carrying amount as at 1 January 2015		4 001 638	1 703 498	67 832	5 772 968
Additions		92 601	283 149	32 889	408 639
Transfers		4 264	61 077	(65 341)	-
Disposals – cost		(18 215)	(148 417)	-	(166 632)
Disposals - accumulated depreciation		1 761	115 900	-	117 661
Depreciation charge		(134 399)	(388 753)	-	(523 152)
Revaluation recognised in profit or loss for the period		(15 058)	-	-	(15 058)
Revaluation recognised in other comprehensive income		(27 644)	-	-	(27 644)
Carrying amount as at 31 December 2015		3 904 948	1 626 454	35 380	5 566 782
Cost or valuation as at 31 December 2015		3 944 788	3 032 660	35 380	7 012 828
Accumulated depreciation		(39 840)	(1 406 206)	-	(1 446 046)
Carrying amount as at 31 December 2015		3 904 948	1 626 454	35 380	5 566 782
Additions		1 025 846	291 229	2 254 779	3 571 854
Transfers		2 091	30 936	(33 027)	-
Transfer to «Investment property»	14	(43 810)	-	-	(43 810)
Disposals – cost		(17 684)	(67 919)	(2 668)	(88 271)
Disposals - Accumulated depreciation		1 329	52 413	-	53 742
Depreciation charge		(159 311)	(355 573)	-	(514 884)
Carrying amount as at 31 December 2016		4 713 409	1 577 540	2 254 464	8 545 413
Cost or valuation as at 31 December 2016		4 910 257	3 286 906	2 254 464	10 451 627
Accumulated depreciation		(196 848)	(1 709 366)	-	(1 906 214)
Carrying amount as at 31 December 2016		4 713 409	1 577 540	2 254 464	8 545 413

13 Property and equipment (continued)

Construction in progress consists of construction and refurbishment of office premises. Upon completion, the assets are transferred to “Premises and land” or “Office and computer equipment”.

The fair value of premises is included in Level 3 in the fair value hierarchy (see Note 35).

As at 31 December 2016 the Group analysed price dynamics on the office property market in 2016. Based on the results of the analysis there were no significant changes in fair value of land and premises during stated periods, so no revaluation was made as at 31 December 2016. As at 31 December 2016 the carrying value of land and premises approximately equals their fair value.

Land and premises were revalued at fair value as at 1 December 2015 by an independent appraiser LCC “SRG-Appraisal” who has appropriate professional qualifications and recent experience in appraisal of similar objects of property.

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

The market approach is based upon an analysis of the results of comparable sales or 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 of 7.7% was assumed for the properties located in Ekaterinburg, the Sverdlovsk Region as well as in other regions;
- capitalisation rates from 9.2% to 10.6% were assumed depending on size and location of the property.

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.

Changes in the estimates above could affect the value of land and premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the valuation of land and premises as at 31 December 2016 would be RUB 141 402 thousand higher/lower (31 December 2015: RUB 108 715 thousand).

In case the premises were recognised at initial cost less the depreciation and losses from depreciation, their balance cost as at 31 December 2016 made RUB 3 614 376 thousand (as at 31 December 2015: RUB 2 380 978 thousand).

14 Investment property

<i>in thousands of Russian Roubles</i>	Land and premises
Cost as at 1 January 2015	6 075 246
Accumulated depreciation	(269 814)
Carrying amount as at 1 January 2015	5 805 432
Transfer from «Assets held for sale»	3 217
Additions	180 697
Disposals – cost	(24 000)
Disposals - accumulated depreciation	991
Depreciation charge	(93 190)
Impairment recognised in other comprehensive income	(32 091)
Carrying amount as at 31 December 2015	5 841 056
Cost as at 31 December 2015	6 203 069
Accumulated depreciation	(362 013)
Carrying amount as at 31 December 2015	5 841 056
Transfer from «Property and equipment»	43 810
Additions	383 800
Disposals – cost	(5 801 300)
Disposals - accumulated depreciation	361 414
Depreciation charge	(23 067)
Carrying amount as at 31 December 2016	805 713
Cost as at 31 December 2016	829 379
Accumulated depreciation	(23 666)
Carrying amount as at 31 December 2016	805 713

Disposal in investment property is concerned with subsidiaries disposal (see Note 37).

The fair value of investment property as at 31 December 2016 is RUB 865 323 thousand. Fair values are estimated based on actual market data and Group's approach to valuation. The main method used for valuation purposes is comparative method.

14 Investment property (continued)

The fair value of investment property as at 31 December 2015 is RUB 6 525 598 thousand. Fair values are estimated based on actual market data by an independent appraiser with appropriate professional qualifications and recent experience in appraisal of similar objects of investment property.

Changes in the estimates above could affect the value of investment property. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the valuation of investment property as at 31 December 2016 would be RUB 24 171 thousand higher/lower (31 December 2015: RUB 175 232 thousand).

The fair value of investment property is included in Level 3 in the fair value hierarchy (see Note 35).

The assessment was carried out with use of a market approach and income direct capitalisation approach (income method) weighed in a 50% / 50% basis.

The market approach is based upon an analysis of the results of comparable sales or offers of similar buildings. Adjustments were applied for size, condition, class and bargain discount.

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;
- management and maintenance expenses, underutilisation of investment property and loss during collection of rent payments was assumed in the range from 18.6 % to 21.0 % depending on the item;
- capitalisation rates up to 8.39 % were assumed depending on function of property.

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

Information about the investment property of RUB 5 451 004 thousand transferred without derecognition as at 31 December 2015 is presented in Note 17.

15 Receivables under commission and sale and purchase agreements of commodities and equipment

<i>in thousands of Russian Roubles</i>	2016	2015
Receivables under sale and purchase agreements of commodities and equipment	2 274 621	6 272 591
Receivables under commission agreements	137 636	10 723 665
Total	2 412 257	16 996 256

As at 31 December 2016 receivables under commission agreements are non-overdue unsecured receivables for transferred commodities with maturity of less than 1 year (31 December 2015: maturity less than 1 year).

As at 31 December 2015 the amount of RUB 6 159 205 thousand included in “Receivables under sale and purchase agreements of commodities and equipment” is non-overdue unsecured receivables for transferred metallurgical and oil products with on “Demand and less than 1 month” maturity. Sale and purchase agreements are made with foreign companies that are world traders.

Geographical, currency and maturity analyses of receivables under commission and sale and purchase agreements of commodities and equipment are disclosed in Note 31.

16 Other assets

<i>in thousands of Russian Roubles</i>	Notes	2016	2015 (restated)
Receivables from operations with securities, precious metals and foreign currencies		1 359 316	115 240
Settlements with Deposit Insurance Agency on insurance payments to depositors of other banks		-	10 725
Finance lease receivables		1 277 480	1 818 904
Credit and debit cards receivables		382 244	282 515
Advances to real estate developers		314 067	1 448 581
Settlements on cash and other operations		237 272	205 882
Investments in non-consolidated subsidiaries		124 820	125 000
Other		20	776
Total other financial assets		3 695 219	4 007 623
Prepayments for equipment acquired for financial lease		4 687 235	-
Assets held for sale		1 625 703	782 418
Prepayments for administrative services		1 288 900	1 119 807
Prepaid taxes other than income tax		767 930	159 375
Current income tax asset		537 125	457 404
Deferred tax asset	29	721 716	655 728
Intangible assets		293 106	256 030
Goodwill		162 148	162 122
Prepayments for equipment acquired for resale		-	123 163
Prepayments for construction in progress		115 280	49 273
Equipment purchased for finance lease		102 925	2 346
Precious metals		35 185	43 321
Deferred expenses		22 208	7 573
Other		850 781	629 110
Total other non-financial assets		11 210 242	4 447 670
Total		14 905 461	8 455 293

Finance lease receivables

Finance lease receivables as at 31 December 2016 of RUB 770 762 thousand (31 December 2015: RUB 567 674 thousand), RUB 901 921 thousand (31 December 2015: RUB 1 900 356 thousand), and RUB 86 342 thousand (31 December 2015: RUB 76 161 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

16 Other assets (continued)

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2016 and 2015 are as follows:

<i>in thousands of Russian Roubles</i>	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Finance lease payments receivable at 31 December 2016	589 061	1 156 789	13 175	1 759 025
Unearned finance income	(43 299)	(398 631)	(7 168)	(449 098)
Allowance for impairment	(21 011)	(9 255)	(2 181)	(32 447)
Present value as at 31 December 2016	524 751	748 903	3 826	1 277 480
Finance lease payments receivable at 31 December 2015	858 164	1 612 556	73 471	2 544 191
Unearned finance income	(64 495)	(589 010)	(43 756)	(697 261)
Allowance for impairment	(18 239)	(9 026)	(761)	(28 026)
Present value as at 31 December 2015	775 430	1 014 520	28 954	1 818 904

Movements in the allowance for impairment of finance lease receivables are as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Allowance for impairment as at 1 January	28 026	13 814
Charge of provision	13 783	64 656
Write-offs	(9 362)	(50 444)
Allowance for impairment as at 31 December	32 447	28 026

16 Other assets (continued)

Analysis by credit quality of finance lease receivables outstanding as at 31 December 2016 and 2015 is as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Not overdue finance lease receivables	1 209 761	1 721 850
Overdue finance lease receivables:	100 166	125 080
- overdue less than 30 days	13 198	11 889
- overdue 31-90 days	8 384	40 369
- overdue 91-210 days	3 787	19 733
- overdue 211-360 days	27 284	7 605
- overdue more than 360 days	47 513	45 484
Total finance lease receivables before allowance for impairment	1 309 927	1 846 930
Allowance for impairment	(32 447)	(28 026)
Total	1 277 480	1 818 904

Information about the fair value of collateral is as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Equipment	640 335	1 208 753
Motor vehicles	512 560	490 847
Premises	58 287	56 677
Total	1 211 182	1 756 277

The table above reflects the fair value of collateral excluding the effects of overcollateralization.

The fair value of collateral as at 31 December 2016 and 2015 is estimated by the Bank's Risk department based on current market prices.

Advances to real estate developers

<i>in thousands of Russian Roubles</i>	2016	2015
Advances to real estate developers	463 606	1 448 581
Allowance for impairment	(149 539)	-
Total	314 067	1 448 581

16 Other assets (continued)

Advances to real estate developers represent investments in investment contracts for construction of apartment buildings, business centers, hotels and other properties in Moscow, Yekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group generally intends to sell the majority of these investments close to completion stage. However, during 2016, the Group changed intentions concerning one project, and upon completion of construction the real estate object was transferred to the Group and transferred in assets held for sale. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts.

These investments are secured by the underlying real estate. Advances to real estate developers are neither overdue nor impaired as at 31 December 2015. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

Assets held for sale

<i>in thousands of Russian Roubles</i>	2016	2015
Land and premises	1 605 445	743 171
Motor vehicles	15 185	24 694
Other property	5 073	14 553
Total	1 625 703	782 418

The property acquired as a result of transactions on settlement agreements and pledge agreements is recognised in assets held for sale.

Management believes that fair value of assets held for sale as at 31 December 2016 and 2015 is not different significantly from carrying amount. Fair value of assets held for sale is estimated based on market data and internal assessment of the Group. As part of the evaluation, the comparative method is mainly used.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in the consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2016 and 2015. These assets are expected to be sold within 1 year.

16 Other assets (continued)

Intangible assets

<i>in thousands of Russian Roubles</i>	Software licenses
Cost as at 1 January 2015	439 199
Accumulated depreciation	(165 874)
Carrying amount as at 1 January 2015	273 325
Additions	56 078
Disposals – cost	(32 517)
Disposals - accumulated depreciation	32 517
Depreciation charge	(73 373)
Carrying amount as at 31 December 2015	256 030
Cost as at 31 December 2015	462 760
Accumulated depreciation	(206 730)
Carrying amount as at 31 December 2015	256 030
Additions	100 431
Disposals – cost	(44 237)
Disposals - accumulated depreciation	43 163
Depreciation charge	(76 556)
Investments in intangible assets	14 275
Carrying amount as at 31 December 2016	293 106
Cost as at 31 December 2016	518 954
Accumulated depreciation	(240 123)
Investments in intangible assets	14 275
Carrying amount as at 31 December 2016	293 106

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

Geographical, currency and maturity analyses of other assets are disclosed in Note 31.

17 Transfer of financial and non-financial assets

The financial and non-financial assets transferred without derecognition as at 31 December 2016 are shown in the table below:

<i>in thousands of Russian Roubles</i>	Other securities at fair value through profit or loss	Investment securities held to maturity
Balance value of assets	54 685 819	88 414 541
Balance value of related liabilities	50 338 158	78 861 967

The financial and non-financial assets transferred without derecognition as at 31 December 2015 are shown in the table below:

<i>in thousands of Russian Roubles</i>	Other securities at fair value through profit or loss	Investment securities held to maturity	Loans and advances to customers	Investment property
Balance value of assets	54 592 516	31 795 792	10 070 580	5 451 004
Balance value of related liabilities	46 782 346	30 250 919	10 505 309	6 563 527

Securities

The Group has transactions to sell securities under sale and repurchase as well as purchase and resale agreements.

The securities sold under sale and repurchase agreements are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties even in the case of absence of default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 7 and 9. The Group recognises a financial liability for cash received within due to other banks (see Note 18). As at 31 December 2016 financial liabilities under second part of the sale and repurchase agreements amount to RUB 129 200 125 thousand (31 December 2015: RUB 77 033 265 thousand), including financial liabilities with the Bank of Russia of RUB 33 000 982 thousand (31 December 2015: RUB 52 391 253 thousand).

These transactions are conducted under generally accepted lending terms, as well as under the requirements determined by exchanges where the Group acts as intermediary.

Loans and advances to customers

The Group carries out operations concerned with sale of certain loan portfolios under assignment agreements such as “Loans to loyal customers”, “Loans to employees participating in payroll projects” and “Unsecured consumer loans” and receives cash.

These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. The assignee has the right to demand repayment of the loan in case loan overdue over 1 day / 29 days depending on the terms of the assignment agreement.

17 Transfer of financial and non-financial assets (continued)

Respectively, the Group continues to recognise these loans in the consolidated statement of financial position until the expiration of the loan/assignment agreement. For the received cash, the Group recognises financial liabilities within the due to other banks (see Note 18). As at 31 December 2015 the balance value of the loans sold without derecognition before allowance for impairment amounts to RUB 10 070 580 thousand, RUB 8 461 770 thousand of those are transferred to JSC “VUZ-Bank”, the balance value of the corresponding liabilities recognised within due to other banks RUB 10 505 309 thousand, RUB 8 462 104 thousand of those are with JSC “VUZ-Bank”. As at 31 December 2016 loans sold to JSC “VUZ-Bank” are not accounted for by the Group as transferred without derecognition due to control gained by the Group over JSC “VUZ-Bank” in the first quarter 2016 (see Note 37). In the third quarter 2016 all liabilities related to repurchase of loans transferred without derecognition were executed by the Group.

Investment property

In December 2015 the Group sold investment property with the balance value of RUB 5 451 004 thousand as at 31 December 2015 and at the same time signed the forward contract for repurchase of this property. These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. Respectively, the Group continues to recognise these assets in the statement of financial position within investment property and recognises financial liabilities for the cash received from sale of these assets in customer accounts as other funds. Balance value of the recognised liabilities as at 31 December 2015 amounts to RUB 6 563 527 thousand (see Note 19).

As at 8 February 2016 the forward contract has been executed by the Group, and the property has been repurchased. The Group has also sold its investments in CUIF “Antey”, CUIF “NIKS”, and CUIF “UBRR-Nedvizhimost”, on the balance of which the property is accounted for, resulting in write-off of this property from the balance of the Group (see Note 37).

18 Due to other banks

<i>in thousands of Russian Roubles</i>	2016	2015
Sale and repurchase agreements on securities	129 200 125	77 033 265
Term deposits	4 582 785	8 267 124
Correspondent accounts and overnight placements	1 071 144	1 146 604
Other funds	-	10 505 309
Total	134 854 054	96 952 302

As at 31 December 2016 the Group has 6 counterparties (31 December 2015: 3 counterparties) with balances over RUB 1 000 000 thousand. The aggregate balances from these counterparties amount to RUB 133 589 638 thousand (31 December 2015: RUB 73 017 339 thousand), or 99% of total balances to other banks (31 December 2015: 75%).

Information concerning obligations under sale and repurchase agreements on securities, as well as concerning the other funds is disclosed in Note 17.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31.

19 Customer accounts - legal entities

<i>in thousands of Russian Roubles</i>	2016	2015
State and public organisations		
- Current/settlement accounts	13 018	8 684
- Other funds	5 152 721	-
Other legal entities		
- Current/settlement accounts	11 639 340	9 348 989
- Term deposits	31 033 694	32 114 761
- Other funds	-	6 563 527
Total	47 838 773	48 035 961

State and public organisations exclude government owned profit oriented businesses.

Information concerning the other funds is disclosed in Note 17.

At 31 December 2016 the Group has 8 customers (31 December 2015: 6 customers) with balances above RUB 700 000 thousand. The aggregate balances from these customers are RUB 14 822 712 thousand (31 December 2015: RUB 10 115 932 thousand), or 7% (31 December 2015: 5%) of total customer accounts.

At 31 December 2015 customer accounts included deposits in the amount of RUB 65 780 thousand held as collateral for irrevocable commitments under import letters of credit.

At 31 December 2016 there are no deposits held as collateral for irrevocable commitments under import letters of credit, included in customer accounts.

The economic sector concentrations as at 31 December within customer accounts are as follows:

<i>in thousands of Russian Roubles</i>	2016		2015	
	Amount	%	Amount	%
Services	18 496 796	38.7	22 887 957	47.6
Trade	9 883 114	20.7	9 029 688	18.8
State government	5 165 739	10.8	8 684	-
Manufacturing	4 622 455	9.7	6 676 121	13.9
Construction	3 843 288	8.0	4 023 342	8.4
Other	5 827 381	12.1	5 410 169	11.3
Total	47 838 773	100.0	48 035 961	100.0

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

20 Customer accounts - individuals

<i>in thousands of Russian Roubles</i>	2016	2015
Current/demand accounts	12 342 575	6 872 209
Term deposits	155 648 012	134 646 701
Total	167 990 587	141 518 910

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

21 Debt securities in issue

<i>in thousands of Russian Roubles</i>	2016	2015
Deposit certificates	5 876 202	855 365
Loan participation notes	4 105 574	4 918 443
Bonds issued on the domestic market	2 278 442	4 921 105
Promissory notes	2 051 573	2 014 834
Total	14 311 791	12 709 747

The following table provides information on the bonds issued on the domestic market:

Issuer	UBRD, PJSC
Series	BO-5
Issue, thousand roubles	2 000 000
Nominal value, roubles	1 000
Date of issue	April 2013
Maturity date	April 2020
Interest rate of the first two coupons, % p.a.	11.15
Interest rate of other coupons, % p.a.	determined by the issuer
Quantity of coupon periods	14
Coupon period	182 days
Date of offer	19.10.2016

In 2016 and 2015 the Group repaid bonds of the BO-05 series submitted to the offer. As at 31 December 2016 the nominal value of the repaid bonds is RUB 618 815 thousand (31 December 2015: RUB 26 141 thousand).

On 22 September the additional issue of bonds of the BO-05 series with nominal value of RUB 1 000 000 thousand was placed by the Group, the total amount of emission as at 31 December 2016 is RUB 3 000 000 thousand.

At 19 September 2016 the bonds of BO-08 series have been redeemed at maturity in the amount of RUB 3 000 000 thousand.

In 2015 the Group repaid bonds of the BO-08 series submitted to the offer. As at 31 December 2015 the nominal value of the repaid bonds is RUB 182 540.

21 Debt securities in issue (continued)

At 29 September 2015 the bonds of BO-01 series have been redeemed at maturity in the amount of RUB 2 000 000 thousand.

On 27 June 2013 the Group issued loan participation notes in the amount of USD 68 million for the period of 5.5 years at a fixed interest rate of 12% p. a. The issuer is the structured entity UBRD Capital DAC. As at 31 December 2016 these loan participation notes are stated at amortised cost of RUB 4 105 574 thousand (31 December 2015: RUB 4 918 443 thousand).

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

22 Other liabilities

<i>in thousands of Russian Roubles</i>	Notes	2016	2015 (restated)
Foreign currency forward contracts	34	2 906 621	768 709
Consideration to be paid in a business combination		269 031	-
Payables on mandatory insurance of deposits		181 139	137 200
Trade payables		24 552	130 521
Settlements on plastic cards		3 330	3 540
Precious metals forward contracts	34	-	125
Payables under assignment agreements		-	481 188
Other		223 632	130 215
Total other financial liabilities		3 608 305	1 651 498
Deferred tax liability	29	1 437 383	1 422 438
Settlements with staff		241 557	187
Taxes payable other than income tax		183 651	220 952
Advance payments under lease agreements		61 062	1 474
Provision for financial guarantee agreements		41 480	66 775
Current income tax liability		28 414	12 127
Advance payments under sale and purchase agreements		-	410 618
Other		22 166	5 687
Total other non-financial liabilities		2 015 713	2 140 258
Total		5 624 018	3 791 756

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 31. The information on transactions with related parties is disclosed in Note 38.

23 Other borrowed funds

<i>in thousands of Russian Roubles</i>	2016	2015
Subordinated loans	8 840 507	14 390 079
Loan from SC DIA	1 844 827	-
Syndicated loans	1 002 223	1 667 059
Total	11 687 557	16 057 138

Loan from State Corporation Deposit Insurance Agency (SC DIA) is a loan granted to JSC “VUZ-Bank” (see Note 37) in the amount of RUB 5 700 000 thousand with annual rate of 0.51% and maturity as at 16 October 2025. This loan was accounted for at fair value of RUB 1 804 848 thousand with effective annual rate of 13.7%. In July 2016 the Group has made partial prepayment of this loan in the amount of RUB 781 760 thousand.

The following table provides information about subordinated loans as at 31 December 2016 and 2015:

Amount of the loan in USD	25 000 000	40 000 000	30 000 000	20 000 000	30 000 000	50 000 000
Issue date	31.12.2014	20.06.2014	30.12.2013	28.02.2013	27.12.2012	21.12.2007
Maturity	6 years	6 years	6 years	6 years	6 years	10 years
Lender	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	The Royal Bank of Scotland
Interest rate as at 31 December 2016, % p.a.	10.25	10.25	8.25	8.25	8.25	-
Interest rate as at 31 December 2015, % p.a.	10.25	10.25	8.25	8.25	8.25	10.03
Carrying value as at 31 December 2016 (in thousands of Russian Roubles)	1 516 554	2 434 002	1 820 257	1 248 099	1 821 595	-
Carrying value as at 31 December 2015 (in thousands of Russian Roubles)	1 822 149	2 925 266	2 187 028	1 499 270	2 189 138	3 767 228

In the event of the Bank’s liquidation the creditors under these subordinated loans would be the last ones entitled to receive repayment.

In April 2016 the Group has made premature repayment of subordinated loan from the Royal Bank of Scotland in the amount of USD 50 million.

In April 2014 the Group attracted a syndicated loan in the amount of USD 33.8 million for 5 years. The loan was granted by AKA Export Finance Bank and Commerzbank at the contract interest rate which is a cumulative rate of six-month’s LIBOR and the margin equal to 2% p.a.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 31.

24 Share capital, share premium and additional capital

<i>in thousands of Russian Roubles</i>	Number of outstanding shares	Ordinary shares
As at 1 January 2015	1 001 454 334	3 634 812
As at 31 December 2015	1 001 454 334	3 634 812
As at 31 December 2016	1 001 454 334	3 634 812

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2016 and at 31 December 2015 all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2016 all ordinary shares have a nominal value of RUB 3 per share (31 December 2015: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

In 2016 additional capital was increased by RUB 605 300 thousand represented by additional gratuitous finance contributions made by the controlling shareholder. Due to disposal of structured entity Sebright Finance Limited a transfer of additional capital was made from «Additional capital» line to «Retained earnings» line in the amount of RUB 524 203 thousand. As at 31 December 2016 additional capital amounts to RUB 3 504 300 thousand (31 December 2015: RUB 3 423 503 thousand).

25 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2016 are RUB 10 574 576 thousand (31 December 2015: RUB 8 411 799 thousand).

26 Interest income and expense

<i>in thousands of Russian Roubles</i>	2016	2015 (restated)
Interest income		
Loans and advances to customers - legal entities	11 199 428	10 536 285
Loans and advances to customers - individuals	8 165 766	10 987 421
Investment securities held to maturity	3 843 050	3 857 174
Other securities at fair value through profit or loss	3 005 880	3 021 462
Due from other banks	740 345	313 846
Correspondent accounts with other banks	334 172	107 689
Finance lease receivables	275 034	270 229
Advances to real estate developers	55 112	32 743
Receivables under commission and sale and purchase agreements of commodities and equipment	760 701	525 498
Total	28 379 488	29 652 347
Interest expense		
Term deposits of individuals	14 557 567	15 901 865
Sale and repurchase agreements	4 330 963	5 788 332
Term placements of legal entities	2 808 003	2 925 124
Debt securities in issue	1 504 727	1 703 083
Subordinated loans	1 028 057	1 147 452
Other attracted funds from banks	627 818	1 069 270
Term placements of other banks	520 936	1 138 350
Current/settlement accounts	362 267	578 713
Correspondent accounts of other banks	5 507	31 491
Syndicated loans	255 835	81 733
Total	26 001 680	30 365 413
Net interest income/(expense)	2 377 808	(713 066)

27 Fee and commission income and expense

<i>in thousands of Russian Roubles</i>	2016	2015 (restated)
Fee and commission income		
Settlement transactions	1 645 838	955 364
Transactions with plastic cards and cheques	990 647	738 206
Insurance under agency agreements	368 764	291 285
Guarantees issued	255 385	111 784
Client service packages	176 956	1 177 075
Cash transactions	173 774	115 974
Access to the system of remote banking (Internet-Bank services)	58 244	44 824
Information services	38 705	22 850
Cash collection	32 362	30 044
Currency transactions	24 666	10 664
Other	29 975	74 979
Total	3 795 316	3 573 049
Fee and commission expense		
Transactions with plastic cards and cheques	611 315	414 020
Settlement transactions	104 825	70 450
Cash collection	80 675	82 005
Transactions with securities	33 400	22 892
Currency transactions	29 524	28 808
Trade finance transactions	16 154	30 212
Transactions with precious metals	2 639	3 922
Other	277	103
Total	878 809	652 412
Net fee and commission income	2 916 507	2 920 637

Fee and commission income included in line “Client service packages” is a commission for insurance services, granting access to the system of remote banking and other services (see Note 39).

28 Administrative and other expenses

<i>in thousands of Russian Roubles</i>	Notes	2016	2015
Staff costs		4 374 519	3 512 455
Contributions to State deposit insurance system		697 876	501 357
Operating lease expense for property and equipment		591 747	553 132
Depreciation of property and equipment	13	514 884	523 152
Advertising and marketing services		327 022	277 067
Computer software maintenance		249 519	108 783
Other costs of property and equipment		222 642	215 394
Acquisition of fittings and materials		167 138	124 220
Information and communication services		154 989	144 735
Information and consulting services		149 987	42 009
Taxes other than income tax		123 516	103 795
Security services		119 349	41 767
Professional services		103 416	100 170
Amortisation of intangible assets	16	76 556	73 373
Other		194 528	147 339
Total		8 067 688	6 468 748

Included in staff costs are statutory social security and pension contributions of RUB 900 733 thousand (2015: RUB 730 883 thousand)

29 Income tax expense

Income tax expense comprises the following:

<i>in thousands of Russian Roubles</i>	2016	2015
Current income tax	740 552	125 947
Income tax underprovided in prior years	19 807	43 376
Deferred income tax	(124 044)	865 843
Income tax expense for the year	636 315	1 035 166

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

<i>in thousands of Russian Roubles</i>	2016	2015
Profit before tax	1 708 845	3 558 732
Theoretical tax at applicable rate	341 769	711 746
Non-deductible costs	127 805	89 109
Income on state securities taxed at lower tax rates	(108 082)	(31 774)
Income tax underprovided in prior years	19 807	43 376
Recognition of previously unrecognised taxable temporary difference	132 549	165 854
Loss on disposal of structured entity (non-deductible)	128 528	-
Other differences	(6 061)	56 855
Income tax expense for the year	636 315	1 035 166

As at 31 December 2016 increase in deferred tax liability of RUB 21 534 thousand (31 December 2015: increase in deferred tax asset of RUB 10 610 thousand) is recorded directly in other comprehensive income, of which increase in deferred tax liability of RUB 49 296 thousand is recognised in revaluation reserve for property and equipment (31 December 2015: increase in deferred tax asset of RUB 11 947 thousand) and increase in deferred tax asset of RUB 27 762 thousand (31 December 2015: decrease in deferred tax asset of RUB 1 337 thousand) is recognised in cumulative translation reserve. On disposal of structured entity Sebright Finance Limited, that's functional currency differs from presentation currency, deferred tax asset related to foreign currency translation effect recognised in cumulative translation reserve in the amount of RUB 51 467 thousand, was reclassified to profit or loss for the period (see Note 37).

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2015: 20%).

29 Income tax expense (continued)

<i>in thousands of Russian Roubles</i>	Deferred tax asset		Deferred tax liability		Net position	
	2016	2015	2016	2015	2016	2015
Trading and other securities at fair value through profit or loss	14 898	-	(425 350)	(398 592)	(410 452)	(398 592)
Securities available-for-sale	99 525	-	-	-	99 525	-
Investment securities held to maturity	313 500	-	(2 030)	(3 559 906)	311 470	(3 559 906)
Due from other banks	600 449	926	(63 145)	-	537 304	926
Loans and advances to customers	505 374	237 893	(212 014)	(2 119 984)	293 360	(1 882 091)
Finance lease receivables	-	69 829	(23 247)	(77 308)	(23 247)	(7 479)
Property and equipment	7 968	42 020	(149 812)	(134 982)	(141 844)	(92 962)
Intangible assets	-	-	(32 718)	(30 151)	(32 718)	(30 151)
Investment property	-	152 771	(150 669)	(44 872)	(150 669)	107 899
Advances to real estate developers	-	-	(21 963)	(51 870)	(21 963)	(51 870)
Receivables under commission and sale and purchase agreements of commodities and equipment	9 503	-	-	-	9 503	-
Assets held for sale	55 810	55 958	-	(60)	55 810	55 898
Due to other banks	-	2 101 062	-	-	-	2 101 062
Customer accounts	-	1 312 705	-	-	-	1 312 705
Debt securities in issue	-	-	(6 015)	(467)	(6 015)	(467)
Other borrowed funds	5 306	964	(615 915)	-	(610 609)	964
Tax losses carried forward	81 051	2 028 179	-	-	81 051	2 028 179
Foreign currency translation effect	51 467	23 704	-	-	51 467	23 704
Other	99 684	7 759 776	(857 324)	(8 134 305)	(757 640)	(374 529)
Total	1 844 535	13 785 787	(2 560 202)	(14 552 497)	(715 667)	(766 710)
Including:						
Deferred tax asset					721 716	655 728
Deferred tax liability					(1 437 383)	(1 422 438)

The tax losses carried forward expire in year 2026.

29 Income tax expense (continued)

Movements in temporary differences during 2016 and 2015 are presented as follows.

	31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
<i>in thousands of Russian Roubles</i>				
Trading and other securities at fair value through profit or loss	(398 592)	(11 860)	-	(410 452)
Securities available-for-sale	-	99 525	-	99 525
Investment securities held to maturity	(3 559 906)	3 871 376	-	311 470
Due from other banks	926	536 378	-	537 304
Loans and advances to customers	(1 882 091)	2 175 451	-	293 360
Finance lease receivables	(7 479)	(15 768)	-	(23 247)
Property and equipment	(92 962)	414	(49 296)	(141 844)
Intangible assets	(30 151)	(2 567)	-	(32 718)
Investment property	107 899	(258 568)	-	(150 669)
Advances to real estate developers	(51 870)	29 907	-	(21 963)
Receivables under commission and sale and purchase agreements of commodities and equipment	-	9 503	-	9 503
Assets held for sale	55 898	(88)	-	55 810
Due to other banks	2 101 062	(2 101 062)	-	-
Customer accounts	1 312 705	(1 312 705)	-	-
Debt securities in issue	(467)	(5 548)	-	(6 015)
Other borrowed funds	964	(611 573)	-	(610 609)
Tax losses carried forward	2 028 179	(1 947 128)	-	81 051
Foreign currency translation effect	23 704	51 468	(23 705)	51 467
Other	(374 529)	(383 111)	-	(757 640)
Total	(766 710)	124 044	(73 001)	(715 667)

	31 December 2014 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
<i>in thousands of Russian Roubles</i>				
Trading and other securities at fair value through profit or loss	(1 227 953)	829 361	-	(398 592)
Investment securities held to maturity	21 620	(3 581 526)	-	(3 559 906)
Due from other banks	977	(51)	-	926
Loans and advances to customers	(1 129 945)	(752 146)	-	(1 882 091)
Finance lease receivables	(50 409)	42 930	-	(7 479)
Property and equipment	(145 008)	40 099	11 947	(92 962)
Intangible assets	(36 099)	5 948	-	(30 151)
Investment property	175 523	(67 624)	-	107 899
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	56 354	(456)	-	55 898
Due to other banks	1 151 353	949 709	-	2 101 062
Customer accounts	1 467 197	(154 492)	-	1 312 705
Debt securities in issue	(3 892)	3 425	-	(467)
Other borrowed funds	(4 466)	5 430	-	964
Tax losses carried forward	119 032	1 909 147	-	2 028 179
Foreign currency translation effect	25 041	-	(1 337)	23 704
Other	(278 932)	(95 597)	-	(374 529)
Total	88 523	(865 843)	10 610	(766 710)

29 Income tax expense (continued)

In the context of the Group's current structure and Russian tax legislation tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same tax authority.

30 Segment analysis

The Group has four reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative financial instruments.
- Financial markets – representing financial instrument trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.
- Global markets – representing documentary operations and operations on attracting funds on international markets, such as eurobonds and Euro commercial papers.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

30 Segment analysis (continued)

Segment information for the reportable segments as at and for the year ended 31 December 2016 is set out below.

<i>in thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Global markets	Total
Interest income from external operations	7 483 511	10 896 516	7 336 839	1 156 996	26 873 862
Interest expense	(13 926 620)	(3 796 881)	(5 538 843)	-	(23 262 344)
Gains/(losses) from transactions with other segments	12 234 232	(4 447 783)	(1 758 096)	-	6 028 353
Fee and commission income/(expense)	2 133 006	1 418 734	(53 497)	(18 094)	3 480 149
Gain from transactions with securities	-	-	2 660 938	-	2 660 938
Gain from transactions with foreign currencies and precious metals	172 220	650 063	6 742 667	-	7 564 950
Other operating income/(expense)	78 378	36 130	(299)	-	114 209
Administrative and other expenses	(2 958 114)	(960 145)	(60 009)	(14 669)	(3 992 937)
Profit before tax	5 216 613	3 796 634	9 329 700	1 124 233	19 467 180
Segment assets	48 178 919	117 645 130	114 535 762	12 106 596	292 466 407
Segment liabilities	154 334 222	44 871 243	113 706 073	15 182 690	328 094 228

Segment information for the reportable segments as at and for the year ended 31 December 2015 is set out below.

<i>in thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Global markets	Total
Interest income from external operations	8 795 337	7 553 264	8 792 775	4 215 435	29 356 811
Interest expense	(15 924 712)	(5 476 401)	(6 660 501)	(1 365 464)	(29 427 078)
Gains/(losses) from transactions with other segments	9 169 075	(4 431 392)	(4 354 385)	-	383 298
Fee and commission income/(expense)	2 200 006	934 437	(35 597)	(2 752)	3 096 094
Gain from transactions with securities	-	-	3 735 277	-	3 735 277
Gain from transactions with foreign currencies and precious metals	213 599	143 448	17 087 330	-	17 444 377
Other operating income	162 546	114 491	2	-	277 039
Administrative and other expenses	(2 336 817)	(1 161 523)	(38 013)	(11 263)	(3 547 616)
Profit/(loss) before tax	2 279 034	(2 323 676)	18 526 888	2 835 956	21 318 202
Segment assets	56 380 722	104 464 049	79 279 272	39 671 117	279 795 160
Segment liabilities	137 447 449	51 973 316	82 259 284	16 558 097	288 238 146

30 Segment analysis (continued)

In the tables above, administrative and other operating expenses are allocated between the segments based on the percentage of the number of employees attributable to each segment. Property and equipment are not allocated between segments in management accounting. Income and expenses from transactions with other segments represent income and expenses from lending and borrowing between segments and is calculated by using a transfer rate determined by management. Pricing in transactions between segments are carried out on an arm's length.

Reconciliations of reportable segment profit or loss for 2016 and 2015, assets and liabilities as at 31 December 2016 and 2015 are as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Segment profit before tax	19 467 180	21 318 202
Allowance for impairment of assets per management accounts	(7 095 771)	(13 002 245)
Elimination of revenues on transactions with other segments	(6 028 353)	(383 298)
Unallocated administrative and other expenses	(3 660 621)	(3 120 337)
Other revenues	232 004	96 720
IFRS accounting policy adjustments:		
- securities at fair value	(1 348 502)	(362 064)
- interest income on loans and advances to customers	(1 631 071)	(62 999)
- elimination of (profit)/loss from transactions with subsidiaries, structured entities and mutual funds	468 914	(146 230)
- assignment of loans	1 595 029	597 044
- allowance for impairment of assets	(380 025)	(1 083 538)
- administrative and other expenses on accrual basis	(129 427)	111 723
- securities at amortised cost	40 034	(110 041)
- depreciation and financial result from disposal of property and equipment, investment property, intangible assets and other property	485 897	(220 228)
- profit/(loss) of subsidiaries, structured entities and mutual funds from transactions with third parties	(403 067)	(131 117)
- loss from revaluation of property and equipment	-	(19 279)
- changes in the fair value of assets acquired in a business combination	266 901	-
- other borrowed funds at amortised cost	(213 932)	(46 140)
- other adjustments	43 655	122 559
Consolidated profit before tax	1 708 845	3 558 732

30 Segment analysis (continued)

	2016	2015
<i>in thousands of Russian Roubles</i>		
Segment assets	292 466 407	279 795 160
Unallocated assets	66 574 953	40 913 927
Allowance for impairment of assets per management accounts	(14 847 183)	(18 137 288)
Deviation of average balances from balances at the period end	40 197 018	7 437 281
IFRS accounting policy adjustments:		
- assets of subsidiaries, structured entities and mutual funds from transactions with third parties	55 859 125	38 697 667
- elimination of balances with subsidiaries, structured entities and mutual funds	(47 819 787)	(29 543 221)
- allowance for impairment of assets	2 036 004	5 454 637
- loans and advances to customers transferred without derecognition	(4 014)	9 931 157
- securities at fair value	1 191 476	3 128 647
- securities at amortised cost	(571 453)	(219 807)
- revaluation of property and equipment, depreciation of property and equipment, investment property and intangible assets	(640 455)	(1 258 295)
- assets write-off against allowance for impairment	(488 690)	(1 854 725)
- administrative and other expenses on accrual basis	(611 331)	(868 005)
- interest income on loans and advances to customers	(66 063)	697 832
- intangible assets capitalisation	83 677	395 587
- deferred tax asset and current income tax asset	75 277	(254 766)
- goodwill	162 147	162 122
- derivatives at fair value	23 681	37 717
- finance lease receivables at amortised cost	(242 307)	(32 967)
- netting of assets and liabilities arising from derivative financial instruments	2 849 986	208 123
- other adjustments	2 731 173	(941 645)
Consolidated assets	398 959 641	333 749 138
Segment liabilities	328 094 228	288 238 146
Unallocated liabilities	1 728 947	1 008 373
Deviation of average balances from balances at the period end	40 131 417	10 360 211
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, structured entities and mutual funds	(5 559 457)	(10 798 143)
- liabilities of subsidiaries, structured entities and mutual funds from transactions with third parties	16 781 721	13 705 103
- liabilities for repurchase of loans and advances to customers transferred without derecognition	-	10 505 309
- liabilities for repurchase of investment property transferred without derecognition	-	6 374 752
- deferred tax liability and current income tax liability	441 723	(95 849)
- administrative and other expenses on accrual basis	516 112	178 354
- debt securities in issue at amortised cost	(5 664)	(11 573)
- derivatives at fair value	56 946	6 808
- other borrowed funds at amortised cost	(3 053 049)	4 818
- netting of assets and liabilities arising from derivative financial instruments	2 849 986	208 123
- other adjustments	323 870	(618 618)
Consolidated liabilities	382 306 780	319 065 814

30 Segment analysis (continued)

Adjustments for deviation of average assets and liabilities balances with balances at the period end caused by analysing average balances in management accounts in December 2016 and 2015.

Geographical segments. The Group operates in the Russian Federation and foreign countries. Segment information for the main geographical segments is set out below for the years ended 31 December 2016 and 2015.

<i>in thousands of Russian Roubles</i>	Russia	Other countries	Total
2016			
Segment assets	184 041 856	108 424 551	292 466 407
External revenues	25 100 471	5 367 749	30 468 220
Credit related commitments	14 276 745	12 579	14 289 324
2015			
Segment assets	170 830 514	108 964 646	279 795 160
External revenues	29 024 629	3 705 315	32 729 944
Credit related commitments	10 979 505	70 374	11 049 879

In presenting geographical information the allocation of external revenues and assets as well as credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

31 Financial risk management, corporate governance and internal control

Corporate governance framework

The Bank is established 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 or 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.

Operational activities of the Bank are managed by the sole executive body of the Bank – President and collective executive body of the Bank – Management Board.

The Board of Directors elects the President for a term of five years. The Management Board of the Bank is formed by the decision of the Board of Directors of the Bank for a term of two years and acts on the basis of effective legislation of Russian Federation, the Charter of the Bank, as well as on the basis of the general shareholder's meeting approval of the Regulation on the Management Board of the Bank. The Management Board of the Bank is responsible for management of operational activities of the Bank except for resolving issues referred to the exclusive jurisdiction of general shareholder's meeting, the Board of Directors and the President of the Bank. 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.

Internal control policies and procedures

The Bank's internal control system represents the set of bodies and directions of internal control ensuring the maintenance of order of implementation and achievement of the objectives set by the legislation of the Russian Federation, the Bank of Russia and internal documents of the Bank.

31 Financial risk management, corporate governance and internal control (continued)

The purpose of internal controls is to ensure:

- the efficiency and effectiveness of financial - economic activity related to banking operations and transactions, the effectiveness of asset and liability management, including the soundness of assets, management of banking risks
- reliability, completeness, objectivity and timeliness of drawing up and submission of financial, accounting, statistical and other statements (for external and internal users), and also information security (security of interests (objectives) of Bank in the information sphere representing a set of information, information infrastructure, the subjects which are carrying out collecting, formation, distribution and use of information, and also system of regulation of the relations arising thus)
- compliance with regulations, standards of the self-regulating organisations, constituent and internal documents of the Bank
- prevention of the Bank's involvement and participation of its employees in implementation of the illegal activity including connected with legalisation (laundering) of income gained in the criminal way, and financing of terrorism, and also timely submission of data to public authorities and the Bank of Russia according to the legislation of the Russian Federation.

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

- control by the Bank's management over organisation of its activities, including the following issues:
 - establishment and operation of effective internal control
 - establishment of effective systems of transmission and exchange of information
 - assessment of risks affecting the achievement of objectives.
- control over the functioning of the banking risk management and assessment of banking risks, providing the identification and analysis of internal (the complexity of the organisational structure, the level of qualifications of employees, organisational changes, staff turnover, etc.) and external (changes in economic environment of the credit institution, applied technologies etc.) factors that impact the Bank's activity
- control over the distribution of authorities in banking transactions and other transactions, which include both current control (material, physical, limits control, etc.) and subsequent control (carried out by appropriate inspections), as well as the development of systems coordination (approval) operations and transactions which exceed the limits, ensuring distribution of functions of employees to exclude the conflict of interests both between the Bank and its customers, and between the Bank and its employees
- control over the management of information flows (receipt and transmission of information) and information security, including overall control exercised to ensure the smooth and ongoing operation, and program control, which is performed manually and automated procedures controlling the processing of banking operations and other transactions
- ongoing monitoring of the internal control system in order to assess the degree of compliance with the objectives of the Bank, to identify gaps, develop proposals and control over the implementation of decisions on improvement of internal control system of the Bank.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit service. The results of Internal Audit service reviews are discussed with employees responsible for maintaining of financial and economic activities and for recognition of relevant transactions in accounting and analytical accounting of the Bank. Summaries submitted to the Board of Directors and the Management Board.

31 Financial risk management, corporate governance and internal control (continued)

Since 1 October 2014, significant changes in internal control of the Bank were implemented. In accordance with the Provision of the Bank of Russia as at 24 April 2014 No.3241-U On introduction of changes in Regulations of the Bank of Russia as at 16 December 2003 No.242-P On the organisation of internal control in credit organisations and banking groups, the internal control function of the Bank was reorganised by separation of the internal audit service. As a result of reorganisation and in accordance with statutory acts of the Bank of Russia requirements functions of the internal control service in the Bank were rearranged as follows:

- The internal audit service performs functions relating to audit and assessment of the internal control system efficiency as a whole, including audit of existing in the Bank processes and procedures over operations, audit of certain Bank's lines of business, assessment of economic efficiency of operations and deals. In addition, the internal audit service performs audit of the internal control service and the risk management service activities. The Group's internal audit service is subordinated to, and reported to, the Board of Directors
- The internal control service (the compliance service) conducts functions relating to:
 - identification, monitoring and management of regulatory risk, i.e. risk of losses occurrence due to Russian Federation legislation and the Bank's internal documentation non-compliance, including consequences of sanctions and (or) other actions of supervising bodies
 - identification of conflicts of interest in the Bank's operations and employees work, including preparation and approval of internal documentation for its minimisation.

Thus, as at the date of preparation of the current statements, internal control in the Bank according to the authorities determined by constituent and internal documents of the Bank is carried out by the following bodies:

- the Bank's bodies (the general shareholders' meeting, the Board of Directors, the President and the Management Board)
- revision commission (controller)
- chief accountant (deputies) of the Bank
- financial monitoring department
- legal direction
- risk department
- corporate and personnel management department
- operational direction
- controller of professional securities market participant
- internal audit service
- internal control service (compliance service)
- controlling service
- treasury
- security service
- information system security function
- committees and commissions
- director (deputies) and chief accountants (deputies) of the Bank's branches
- heads (deputies) of additional and operational offices
- other departments and employees.

31 Financial risk management, corporate governance and internal control (continued)

Information on the system of internal control, the order of its establishment and authorities are contained in the Charter of the Bank. The organisational structure of the Bank regarding distribution of authorities between officials, the bodies and divisions exercising internal control, corresponds to character and scales of the performed operations, level and a combination of the accepted risks.

Russian legislation, including:

- the Federal Law dated 2 December 1990 No.395-1 "On banks and banking activity"
- Regulations of the Bank of Russia "On assessment of compliance with the professional qualifications and requirements to business reputation of bodies stated in article 11.1 of the Federal Law On banks and banking activity and article 60 of the Federal law On the Central Bank of Russian Federation (Bank of Russia) and order of database keeping in accordance with article 75 of the Federal law On the Central Bank of Russian Federation (Bank of Russia)" dated 25 October 2013 No.408-P
- Provision of the Bank of Russia "On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation" dated 1 April 2014 No.3223-U

establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet these requirements. The Bank sends to the Bank of Russia the notices over compliance with the requirements of the above mentioned personnel as the changes in management personnel and their data subjected to agreement with the Bank of Russia occur as required by regulatory acts of the Bank of Russia.

Management believes that the Bank complies with the Bank of Russia 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 carried out by the Bank.

Financial risk management

Risk management is a cornerstone of the Bank's activity and is an essential element of operating activities of the Group. Risk management is carried out in relation to financial risks (credit, market, currency, other price risks, interest rate risk, geographical and liquidity risk) and non-financial (operational, legal, strategic risks, risk of loss of business reputation and regulatory risk). The specified risks are the main (significant) risks which the Group faces in the course of implementation of its activity. The system of the reporting on significant risks and the Group's equity (capital) is developed in the Group. The main purpose of financial risk management is identification of risk limits and further ensuring compliance with the set limits. Non-financial risk management has to provide appropriate compliance with internal regulations and procedures for minimisation of the specified risks.

The internal documents of the Group applicable as at 31 December 2016 establishing techniques of identification and management of risks, significant for the Group, implementation of stress testing on the specified risks are approved by authorised bodies of the Bank's management according to requirements and recommendations of the Bank of Russia.

The Board of Directors is responsible for appropriate risk management operation, significant risk management and also for approval of policies and procedures on risk management, as well as for approval of significant transactions.

The responsibilities of the Bank's Board of Directors and its executive bodies include monitoring the Group's compliance with the limit values of risks established by internal documents of the Group and the equity sufficiency (capital sufficiency). To control the efficiency of the risk management procedures and sequence of their application applied in the Group, the Bank's Board of Directors and its executive bodies discuss the reports prepared by the Bank's Risk Department and the internal audit service on a periodic basis, consider proposed measures on elimination of shortcomings and improvement of the risk control system.

31 Financial risk management, corporate governance and internal control (continued)

The Management Board is responsible for monitoring and introduction of measures for risk decrease, as well as monitoring the Group's activity within the set risk limits. The Risk Department is responsible for the general risk management and control of compliance with applicable legislation, as well as for control of application of the general principles and methods on detection, assessment, management and drawing up reports both on financial, and on non-financial risks. The Risk Department is accountable directly to the President and indirectly to the Board of Directors. The Risk Department is not subordinated and is not accountable to the divisions accepting the corresponding risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. See Note 33.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning.

Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management)..

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group
- Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days
- the borrower has one delay in interest payment exceeding 15 calendar days
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent
- a failure to fulfill, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement

31 Financial risk management, corporate governance and internal control (continued)

- two consecutive delays in contractual lease payments
- violation of contractual requirements on the use of leased property
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

For effective work on collecting debt, two procedures of collecting problem debts of corporate borrowers are provided in the Group: voluntary and enforcement.

Voluntary repayment of loan by problem borrowers stipulates the actions of responsible staff described below if it is possible to contact the borrower during a certain period of time is possible.

If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating
- reviewing the reasons for overdue balances (default)
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to the Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and evacuation of the problem borrower's property to the Group
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case it is not possible to contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products profitability using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount
- on the basis of a review of the relationship of net operating income received from gross loan placements, and actual losses (overdue amounts with consideration of the recovery coefficient).

Issuance of loans to individuals is carried out via a software system SAP CRM – client relationships management system, conceptual approach in business development with external environment and market participants.

The process of loan issuance includes the following basic elements (software modules/automated work stations - AWS):

1. Software SAP CRM (SAP CRM «Loans») - software module for automatic:

- identification of borrower/surety/pledger
- verification of existence/absence of loan debts of borrower/surety/pledger with the Bank
- generating and keeping of borrower/surety/pledger application (filled in by the Bank's specialist)
- export of borrower/surety/pledger application for the pre-issuance loan assessment

31 Financial risk management, corporate governance and internal control (continued)

- generating "Account management agreement", "CBM agreement", "Application form", "loan contract/ agreement", "Surety agreement", "Pledge agreement", numbering, printing of agreements and etc.

2. Software AWS "Risk Manager" – adjustable in accordance with the Bank's Setting limits for retail loans methodology ("Methodology") software for borrower/surety creditworthiness assessment, collateral valuation and automatic calculation of credit limit amount for borrower based on application data and collateral.

Within the scope of the pre-issuance loan assessment preliminary credit limits are set in accordance with the methodology for client assessment.

Individual customers are evaluated based on scoring models developed with the help of special software using accumulated statistical data. These methods include procedures for calculation of scoring rates based on personal data as a separate borrower evaluation factor.

Preliminary credit check specialist within the set period for applications verification performs check of data received from borrower/surety/pledger for reliability.

Preliminary credit check specialist takes decision on every loan in SAP CRM and sets one of the statuses: "Loan issuance" or "Loan rejection".

Final decision is made taking into account preliminary credit check opinion.

3. Software AWS "Risk Manager" contains information over taken decision of preliminary credit check. Preliminary credit check decision is also reflected in SAP CRM module "Additional information"/"List of applications transferred to security services" for every borrower/surety/pledger.

In case of a positive decision from the preliminary credit check and a non-zero loan limit employee of the point of sale continues with the loan issuance in SAP CRM «Loans» choosing one of the options: "Now" (loan to be issued in a current operational day) or "Later" (loan to be issued within time limits set in accordance with "Individual terms of consumer loan").

The Group applies the system of monitoring of the individuals loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the effectiveness of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

The Problem-Debt Collection Direction ("PDCD") starts work with loans from individuals on the first day since principal or interest amount become overdue.

For overdue debts recovery complex of scoring models is developed based on accumulated statistical data. These models are used for loans segmentation by probability of recovery, type of loan product, instruments of debt recovery for management of collection strategies.

PDCD specialists work in software and hardware SAP CRM and SAP BCM.

For collection process optimisation the Bank implemented automotive processes of daily outgoing client calls (soft-collection), targets generation for hard-collection specialists, scenarios and screen forms containing necessary information for specialists work.

Score calculation and segmentation of loan agreements are performed daily in automatic mode.

On the first and the third days of overdue clients are sent sms with notice of overdue.

On fifth day of overdue all loan agreements are transferred to soft-collection service. Responsible specialists call to clients. This stage takes up to 25 days (or till recovery).

On 30th day of overdue depending on selected recovery strategy, loan agreements are transferred to pre-court management service or to collection agencies. Specialists of pre-court management service (hard-collection) work with entire set of measures – calls to clients, auto dial regime calls, sending written notice, sms and clients visits.

The Bank internal collection services usually work with overdue debts till 120 overdue days, then work is transferred to collection agencies.

31 Financial risk management, corporate governance and internal control (continued)

If client does not repay the loan, it is transferred to collecting by judicial means. Terms and reasonability of application of judicial means is determined under scoring model. Transfer to certain stage is possible under client's claim.

When loan is considered as uncollectable, it is written off the balance.

The Risk Department performs an ageing analysis of outstanding loans and follows up overdue balances. Management is provided with information on ageing analysis and other information relating to credit risk

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, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

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 and
- securities lending and borrowing.

These securities received as collateral / pledged, may be pledged or sold during the term of the transaction, but must be returned before the maturity of the transaction. Terms of the transaction also provide to each counterparty the right to terminate the relevant transactions as a result of failure of a counterparty to provide 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.

	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position	Net amount
<i>in thousands of Russian Roubles</i>					
Liabilities					
Sale and repurchase agreements on securities	(129 200 125)	-	(129 200 125)	129 200 125	-
Total financial liabilities	(129 200 125)	-	(129 200 125)	129 200 125	-

31 Financial risk management, corporate governance and internal control (continued)

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

	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position	Net amount
<i>in thousands of Russian Roubles</i>					
Liabilities					
Sale and repurchase agreements on securities	(77 033 265)	-	(77 033 265)	77 033 265	-
Total financial liabilities	(77 033 265)	-	(77 033 265)	77 033 265	-

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost

The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk.

The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee holds a meeting in order to change the current portfolio management procedures.

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2016.

31 Financial risk management, corporate governance and internal control (continued)

<i>in thousands of Russian Roubles</i>	RUB	USD	Euro	Precious metals	Other	Total
Assets						
Cash and cash equivalents	22 280 081	4 080 789	379 724	-	49 899	26 790 493
Mandatory cash balances with the Bank of Russia	2 426 867	-	-	-	-	2 426 867
Other securities at fair value through profit or loss	13 532 287	41 638 777	-	-	-	55 171 064
Investment securities held to maturity	89 898 316	-	-	-	-	89 898 316
Due from other banks	2 478 694	871 848	-	-	-	3 350 542
Loans and advances to customers - legal entities	81 307 447	46 525 105	108 354	-	-	127 940 906
Loans and advances to customers - individuals	41 591 590	25 779	602	-	-	41 617 971
Receivables under commission and sale and purchase agreements of commodities and equipment	120 312	2 291 945	-	-	-	2 412 257
Other financial assets	2 470 713	1 224 211	287	-	8	3 695 219
Total monetary assets	256 106 307	96 658 454	488 967	-	49 907	353 303 635
Liabilities						
Due to other banks	95 476 064	39 110 554	267 436	-	-	134 854 054
Customer accounts - legal entities	42 342 222	5 126 594	318 125	38 681	13 151	47 838 773
Customer accounts - individuals	154 730 739	9 398 442	3 627 741	196 245	37 420	167 990 587
Debt securities in issue	10 075 888	4 227 652	8 251	-	-	14 311 791
Other borrowed funds	1 844 827	9 842 730	-	-	-	11 687 557
Other financial liabilities	699 116	2 549	19	-	-	701 684
Total monetary liabilities	305 168 856	67 708 521	4 221 572	234 926	50 571	377 384 446
Net position	(49 062 549)	28 949 933	(3 732 605)	(234 926)	(664)	(24 080 811)
Derivative financial instruments	39 301 756	(20 749 328)	3 424 517	194 269	16 804	22 188 018
Net position including derivative instruments	(9 760 793)	8 200 605	(308 088)	(40 657)	16 140	(1 892 793)

31 Financial risk management, corporate governance and internal control (continued)

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

<i>in thousands of Russian Roubles (restated)</i>	RUB	USD	Euro	Precious metals	Other	Total
Assets						
Cash and cash equivalents	36 514 399	11 485 929	967 296	-	67 859	49 035 483
Mandatory cash balances with the Bank of Russia	1 583 269	-	-	-	-	1 583 269
Other securities at fair value through profit or loss	1 078 599	50 460 455	-	-	-	51 539 054
Securities available-for-sale	10 000	-	-	-	-	10 000
Investment securities held to maturity	33 738 981	-	-	-	-	33 738 981
Due from other banks	1 499 219	5 025 531	-	-	-	6 524 750
Loans and advances to customers - legal entities	45 637 473	54 033 361	1 058 668	-	-	100 729 502
Loans and advances to customers - individuals	45 283 594	33 550	883	-	-	45 318 027
Receivables under commission and sale and purchase agreements of commodities and equipment	113 386	16 882 870	-	-	-	16 996 256
Other financial assets	3 988 466	17 824	1 322	-	11	4 007 623
Total monetary assets	169 447 386	137 939 520	2 028 169	-	67 870	309 482 945
Liabilities						
Due to other banks	49 490 927	46 761 920	699 452	-	3	96 952 302
Customer accounts - legal entities	36 129 669	11 243 800	609 316	51 530	1 646	48 035 961
Customer accounts - individuals	126 379 632	10 168 134	4 681 002	223 721	66 421	141 518 910
Debt securities in issue	7 477 609	5 228 712	3 426	-	-	12 709 747
Other borrowed funds	-	16 057 138	-	-	-	16 057 138
Other financial liabilities	664 177	218 482	5	-	-	882 664
Total monetary liabilities	220 142 014	89 678 186	5 993 201	275 251	68 070	316 156 722
Net position	(50 694 628)	48 261 334	(3 965 032)	(275 251)	(200)	(6 673 777)
Derivative financial instruments	48 266 777	(44 837 208)	3 988 844	221 278	2 160	7 641 851
Net position including derivative instruments	(2 427 851)	3 424 126	23 812	(53 973)	1 960	968 074

31 Financial risk management, corporate governance and internal control (continued)

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

<i>in thousands of Russian Roubles</i>	31 December 2016		31 December 2015	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against RUB	1 312 097	1 312 097	547 860	547 860
20% depreciation of USD against RUB	(1 312 097)	(1 312 097)	(547 860)	(547 860)
20% appreciation of Euro against RUB	(49 294)	(49 294)	3 810	3 810
20% depreciation of Euro against RUB	49 294	49 294	(3 810)	(3 810)
20% appreciation of precious metals against RUB	(6 505)	(6 505)	(8 636)	(8 636)
20% depreciation of precious metals against RUB	6 505	6 505	8 636	8 636

In the current environment it's hard to evaluate potential future fluctuations and their influence on profit or loss of the Group.

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and the Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% from a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules. As at 31 December 2015 limits on operation with a trading portfolio of securities were closed.

Interest rate risk. The bond portfolio's fair value is exposed to changes in interest rate. The Group manages the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio's value in case of a 300 b.p. increase in rates.

The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

31 Financial risk management, corporate governance and internal control (continued)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2016 and 2015 due to changes in interest rates:

<i>in thousands of Russian Roubles</i>	Exposure during 2016		Exposure during 2015	
	Profit or loss	Equity	Profit or loss	Equity
Changes in portfolio's fair value in case of a 300 b.p. increase in rates at year end	(3 361 052)	(3 361 052)	(1 677 656)	(1 677 656)

The table below reflects the eurobond portfolio's sensitivity for the year ended 31 December 2016 and 2015 due to changes in interest rates:

<i>in thousands of Russian Roubles</i>	Exposure during 2016		Exposure during 2015	
	Profit or loss	Equity	Profit or loss	Equity
Changes in portfolio's fair value in case of a 300 b.p. increase in rates at year end	(2 261 418)	(2 261 418)	(2 479 563)	(2 479 563)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December 2016 and 2015 is as follows:

<i>in thousands of Russian Roubles</i>	2016		2015	
	Profit or loss	Equity	Profit or loss	Equity
300 b.p. parallel rise	(711 218)	(711 218)	(973 558)	(973 558)
300 b.p. parallel fall	711 218	711 218	973 558	973 558

31 Financial risk management, corporate governance and internal control (continued)

	2016				2015 (restated)			
	RUB	USD	Euro	Other	RUB	USD	Euro	Other
% p.a.								
Assets								
Cash and cash equivalents	9.23	0.07	-	0.18	9.85	0.09	-	0.03
Other securities at fair value through profit or loss	10.89	5.59	-	-	-	5.76	-	-
Investment securities held to maturity	9.82	-	-	-	11.52	-	-	-
Due from other banks	-	0.19	-	-	2.91	0.62	-	-
Loans and advances to customers - legal entities	12.32	7.91	7.42	-	14.07	9.96	8.16	-
Loans and advances to customers - individuals	20.59	13.30	23.66	-	22.53	13.43	22.75	-
Other assets	-	-	-	-	-	-	-	-
- Finance lease receivables	2.02	-	-	-	14.05	-	-	-
- Advances to real estate developers	3.78	-	-	-	2.26	-	-	-
Liabilities								
Due to other banks								
- term deposits	6.64	2.56	1.45	-	11.41	0.15	1.50	-
- correspondent accounts and overnight placements	5.57	-	-	-	0.08	0.02	0.02	-
- sale and repurchase agreements on securities	6.64	2.50	0.32	-	11.27	2.16	-	-
- other funds	-	-	-	-	30.04	-	-	-
Customer accounts - legal entities								
- current and settlement accounts	2.38	0.39	0.39	-	2.38	0.39	0.39	-
- term deposits	8.77	8.69	1.31	5.00	10.86	7.96	2.70	4.98
Customer accounts - individuals	9.64	2.12	1.81	4.53	12.05	3.83	3.59	4.42
Debt securities in issue:								
- promissory notes	3.62	1.57	5.47	-	9.74	5.04	6.27	-
- bonds issued on domestic market	13.00	-	-	-	13.00	-	-	-
- eurobonds	-	12.75	-	-	-	12.75	-	-
Other borrowed funds:								
- subordinated loans	-	10.04	-	-	-	9.37	-	-
- syndicated loans	-	3.26	-	-	-	2.53	-	-

31 Financial risk management, corporate governance and internal control (continued)

Geographical risk concentrations. The geographical concentration of assets and liabilities at 31 December 2016 is set out below.

<i>in thousands of Russian Roubles</i>	Russia	Other countries	Total
Assets			
Cash and cash equivalents	25 195 711	1 594 782	26 790 493
Mandatory cash balances with the Bank of Russia	2 426 867	-	2 426 867
Other securities at fair value through profit or loss	55 171 064	-	55 171 064
Investment securities held to maturity	89 898 316	-	89 898 316
Due from other banks	2 478 694	871 848	3 350 542
Loans and advances to customers - legal entities	46 898 827	81 042 079	127 940 906
Loans and advances to customers - individuals	41 611 078	6 893	41 617 971
Derivatives	3 668 585	21 426 054	25 094 639
Receivables under commission and sale and purchase agreements of commodities and equipment	120 312	2 291 945	2 412 257
Other financial assets	2 504 269	1 190 950	3 695 219
Total financial assets	269 973 723	108 424 551	378 398 274
Total non-financial assets	15 848 249	4 713 119	20 561 368
Total	285 821 972	113 137 670	398 959 642
Liabilities			
Due to other banks	134 682 344	171 710	134 854 054
Customer accounts - legal entities	47 568 498	270 275	47 838 773
Customer accounts - individuals	167 683 208	307 379	167 990 587
Debt securities in issue	10 206 217	4 105 574	14 311 791
Other borrowed funds	1 844 827	9 842 730	11 687 557
Other financial liabilities	758 631	2 849 674	3 608 305
Total financial liabilities	362 743 725	17 547 342	380 291 067
Total non-financial liabilities	2 015 713	-	2 015 713
Total	364 759 438	17 547 342	382 306 780
Net position	(78 937 466)	95 590 328	16 652 862
Credit related commitments	14 276 745	12 579	14 289 324

31 Financial risk management, corporate governance and internal control (continued)

The geographical concentration of assets and liabilities at 31 December 2015 is set out below.

<i>in thousands of Russian Roubles (restated)</i>	Russia	Other countries	Total
Assets			
Cash and cash equivalents	39 291 923	9 743 560	49 035 483
Mandatory cash balances with the Bank of Russia	1 583 269	-	1 583 269
Other securities at fair value through profit or loss	51 539 054	-	51 539 054
Securities available-for-sale	10 000	-	10 000
Investment securities held to maturity	33 738 981	-	33 738 981
Due from other banks	1 499 219	5 025 531	6 524 750
Loans and advances to customers - legal entities	31 305 455	69 424 047	100 729 502
Loans and advances to customers - individuals	45 315 022	3 005	45 318 027
Derivatives	736 843	7 673 842	8 410 685
Receivables under commission and sale and purchase agreements of commodities and equipment	113 386	16 882 870	16 996 256
Other financial assets	3 795 832	211 791	4 007 623
Total financial assets	208 928 984	108 964 646	317 893 630
Total non-financial assets	15 732 345	123 163	15 855 508
Total	224 661 329	109 087 809	333 749 138
Liabilities			
Due to other banks	96 525 690	426 612	96 952 302
Customer accounts - legal entities	40 358 505	7 677 456	48 035 961
Customer accounts - individuals	141 190 011	328 899	141 518 910
Debt securities in issue	7 791 304	4 918 443	12 709 747
Other borrowed funds	-	16 057 138	16 057 138
Other financial liabilities	1 088 475	563 023	1 651 498
Total financial liabilities	286 953 985	29 971 571	316 925 556
Total non-financial liabilities	1 729 640	410 618	2 140 258
Total	288 683 625	30 382 189	319 065 814
Net position	(64 022 296)	78 705 620	14 683 324
Credit related commitments	10 979 505	70 374	11 049 879

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held. Securities are allocated based on the country in which the actual issuer is located.

31 Financial risk management, corporate governance and internal control (continued)

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

Liquidity risk management process includes:

- consideration and limits setting for current operations influencing liquidity position, taking measures to ensure profitable work at optimal liquidity risk-level
- system monitoring by responsible departments of current operations in terms of liquidity ratios
- system monitoring of current and prospective liquidity in Russian roubles and foreign currencies;
- assessment on a regular basis of excessive/deficit liquidity level
- regular control over effectiveness of liquidity management methods.

The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department daily monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes performing daily calculations of liquid assets necessary for covering resource base risks, reviewing the level and structure of liquid assets and available liquidity forming instruments, providing access to different finance sources, maintaining liquidity contingency plans and monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure the sufficient liquidity level of a credit organisation.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

Possible negative factors on interbank loans market, such as rates fluctuations, closing or changing credit limits and other negative market changes, do not significantly influence liquidity position of the Bank due to following factors:

- dependence on interbank loan market in terms of the whole balance risk is minimised as interbank loans fund only bonds portfolio. Almost all acquired bonds are in Lombard list of the Bank of Russia and the Bank can receive funding from the Bank of Russia;
- deterioration on financial markets in fact does not influence balance of portfolio and financial results of the Bank as speculative trading with currencies and shares is conducted in limited volumes.

31 Financial risk management, corporate governance and internal control (continued)

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash within 1 month. Therefore other securities at fair value through profit or loss and securities available-for-sale as at 31 December 2016 and 2015 are classified as "Demand and less than 1 month" in the tables below. The fair value of securities which are classified in this category with maturity more than 12 months amounts to RUB 33 198 548 thousand (31 December 2015: RUB 51 338 466 thousand).

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower. Accordingly, 80% of term deposits from individuals in categories "On demand and less than 1 month", "From 1 to 3 month", "From 3 to 12 months" and "From 1 to 3 years" are classified in the category "Over 3 years" to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest

The table below shows analysis of term deposits from individuals as at 31 December 2016 and 2015 on the basis of contractual maturity:

<i>in thousands of Russian Roubles</i>	2016	2015
On demand and less than 1 month	10 455 080	11 937 637
From 1 to 3 months	13 984 334	12 184 766
From 3 to 12 months	56 193 439	49 772 475
From 1 to 3 years	30 474 232	2 539 882
Over 3 years	44 540 927	58 211 941
Total	155 648 012	134 646 701

The Group uses investment securities held to maturity for cash management purposes. The Bank acquires only securities that meet the requirements of the Lombard list of the Bank of Russia, because of this the Group may raise cash using their securities through repurchase operations. As at 31 December 2016 investment securities held to maturity amounted to RUB 88 414 541 thousand (31 December 2015: RUB 31 795 792 thousand) were sold under agreements to repurchase, but the Group retains substantially all the risks and rewards related to these securities, and therefore has not derecognised them (see Note 9). Management believes that the contract terms of sale and repurchase agreements are not meaningful for liquidity analysis, because after termination of these agreements new agreements on the pledge of these securities will be concluded. Consequently the Group includes direct sale and repurchase agreements as a long-term source of funding. Expected maturity terms of underlying borrowing transactions are presented in accordance with relevant maturity of securities held to maturity, which are pledged under direct sale and repurchase agreements. The table below shows analysis of amounts of due to other banks as at 31 December 2016 and 2015 by contractual maturity:

<i>in thousands of Russian Roubles</i>	2016	2015
On demand and less than 1 month	80 195 662	64 467 536
From 1 to 3 months	53 922 691	3 098 873
From 3 to 12 months	138 118	16 858 091
From 1 to 3 years	389 397	7 800 427
Over 3 years	208 186	4 727 375
Total	134 854 054	96 952 302

31 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2016.

<i>in thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Assets						
Cash and cash equivalents	26 790 493	-	-	-	-	26 790 493
Mandatory cash balances with the Bank of Russia	961 106	567 346	160 208	467 736	270 471	2 426 867
Other securities at fair value through profit or loss	55 171 064	-	-	-	-	55 171 064
Investment securities held to maturity	61 637	-	29 842 521	11 373 456	48 620 702	89 898 316
Due from other banks	2 221 079	-	871 848	-	257 615	3 350 542
Loans and advances to customers - legal entities	16 349 442	26 251 191	46 853 065	20 415 137	18 072 071	127 940 906
Loans and advances to customers - individuals	1 315 549	1 710 376	6 803 961	13 953 159	17 834 926	41 617 971
Derivatives	129 784	1 191	2 091 441	3 942 723	18 929 500	25 094 639
Receivables under commission and sale and purchase agreements of commodities and equipment	115 813	5 929	2 205 918	56 354	28 243	2 412 257
Other financial assets	2 375 857	92 564	349 230	545 012	332 556	3 695 219
Total financial assets	105 491 824	28 628 597	89 178 192	50 753 577	104 346 084	378 398 274
Liabilities						
Due to other banks	42 720 405	12 914 663	27 274 870	10 767 224	41 176 892	134 854 054
Customer accounts - legal entities	18 945 431	11 183 617	3 158 052	9 220 090	5 331 583	47 838 773
Customer accounts - individuals	14 354 484	2 788 853	11 225 775	6 024 839	133 596 636	167 990 587
Debt securities in issue	1 772 869	1 431 824	5 243 216	4 264 371	1 599 511	14 311 791
Other borrowed funds	-	249 185	1 160 392	5 770 547	4 507 433	11 687 557
Other financial liabilities	758 632	55 806	733 176	1 809 564	251 127	3 608 305
Total financial liabilities	78 551 821	28 623 948	48 795 481	37 856 635	186 463 182	380 291 067
Net liquidity gap as at 31 December 2016	26 940 003	4 649	40 382 711	12 896 942	(82 117 098)	(1 892 793)
Cumulative liquidity gap as at 31 December 2016	26 940 003	26 944 652	67 327 363	80 224 305	(1 892 793)	

31 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2015.

<i>in thousands of Russian Roubles (restated)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Assets						
Cash and cash equivalents	42 471 824	6 563 659	-	-	-	49 035 483
Mandatory cash balances with the Bank of Russia	215 879	121 949	151 513	83 946	1 009 982	1 583 269
Other securities at fair value through profit or loss	51 539 054	-	-	-	-	51 539 054
Securities available-for-sale	10 000	-	-	-	-	10 000
Investment securities held to maturity	-	3 336 761	6 568 715	5 156 482	18 677 023	33 738 981
Due from other banks	1 082 649	-	5 025 531	-	416 570	6 524 750
Loans and advances to customers - legal entities	7 164 254	11 146 009	49 180 548	19 352 071	13 886 620	100 729 502
Loans and advances to customers - individuals	1 319 412	1 601 060	8 891 355	15 026 747	18 479 453	45 318 027
Derivatives	736 749	-	562 456	1 892 025	5 219 455	8 410 685
Receivables under commission and sale and purchase agreements of commodities and equipment	6 159 205	-	10 723 665	-	113 386	16 996 256
Other financial assets	752 093	170 507	962 046	1 655 444	467 533	4 007 623
Total financial assets	111 451 119	22 939 945	82 065 829	43 166 715	58 270 022	317 893 630
Liabilities						
Due to other banks	34 226 154	6 638 387	22 104 369	12 229 640	21 753 752	96 952 302
Customer accounts - legal entities	16 590 135	12 168 020	8 203 213	9 543 188	1 531 405	48 035 961
Customer accounts - individuals	9 255 682	2 432 132	9 936 530	507 138	119 387 428	141 518 910
Debt securities in issue	1 373 674	599 477	4 493 122	4 860 052	1 383 422	12 709 747
Other borrowed funds	-	184 361	1 617 154	7 667 193	6 588 430	16 057 138
Other financial liabilities	1 088 599	-	-	-	562 899	1 651 498
Total financial liabilities	62 534 244	22 022 377	46 354 388	34 807 211	151 207 336	316 925 556
Net liquidity gap as at 31 December 2015	48 916 875	917 568	35 711 441	8 359 504	(92 937 314)	968 074
Cumulative liquidity gap as at 31 December 2015	48 916 875	49 834 443	85 545 884	93 905 388	968 074	

31 Financial risk management, corporate governance and internal control (continued)

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as at 31 December 2016 is as follows.

<i>in thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Liabilities						
Due to other banks	42 875 029	54 790 429	27 279 326	10 823 205	41 298 924	177 066 913
Customer accounts - legal entities	18 991 172	11 377 122	3 269 635	11 888 805	5 379 538	50 906 272
Customer accounts - individuals	14 396 870	3 020 984	14 298 461	12 809 911	147 261 364	191 787 590
Debt securities in issue	1 783 801	1 456 846	5 574 539	5 354 266	2 377 547	16 546 999
Other borrowed funds	-	57 095	1 222 222	6 964 313	9 090 669	17 334 299
Derivative financial instrument liabilities	2 906 621	-	-	-	-	2 906 621
Operating lease commitments	45 066	88 511	365 900	166 396	117 571	783 444
Guarantees issued	889 863	1 886 832	1 945 524	1 952 232	229 738	6 904 189
Import letters of credit	-	-	-	-	-	-
Unused commitments to extend credit	7 385 135	-	-	-	-	7 385 135
Other financial liabilities	758 630	55 806	733 176	1 809 564	251 129	3 608 305
Total financial and contingent liabilities	90 032 187	72 733 625	54 688 783	51 768 692	206 006 480	475 229 767

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as at 31 December 2015 is as follows.

<i>in thousands of Russian Roubles (restated)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Liabilities						
Due to other banks	34 342 043	6 682 032	22 262 431	12 679 493	21 831 672	97 797 671
Customer accounts - legal entities	16 624 974	12 243 934	8 638 741	11 910 703	1 887 453	51 305 805
Customer accounts - individuals	9 320 502	2 644 380	13 049 589	831 985	138 747 860	164 594 316
Debt securities in issue	1 102 788	302 896	6 489 342	6 496 103	14 303	14 405 432
Other borrowed funds	-	186 890	1 701 834	9 314 341	9 707 976	20 911 041
Derivative financial instrument liabilities	768 834	-	-	-	-	768 834
Operating lease commitments	27 658	54 129	229 515	163 104	34 960	509 366
Guarantees issued	253 698	1 506 499	1 366 446	2 212 502	71 403	5 410 548
Import letters of credit	10 103	-	-	-	-	10 103
Unused commitments to extend credit	5 629 228	-	-	-	-	5 629 228
Other financial liabilities	1 088 599	-	-	-	562 899	1 651 498
Total financial and contingent liabilities	69 168 427	23 620 760	53 737 898	43 608 231	172 858 526	362 993 842

31 Financial risk management, corporate governance and internal control (continued)

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

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

Despite amounts of guarantees can be withdrawn at any moment, liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32 Capital management

The Group's objectives when managing capital are (i) to comply with capital requirements set by the Bank of Russia, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis.

Compliance with capital adequacy ratio is set by the Bank of Russia.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Since 1 January 2014 the Group calculates amounts of capital in accordance with Provision of the Bank of Russia dated 28 December 2012 No.395-P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)*.

The following table shows the minimum level of capital adequacy ratio of the Group as at 31 December 2016 and 2015:

<i>percentage</i>	2016	2015
Base capital adequacy ratio N20.1	4.50	5.00
Main capital adequacy ratio N20.2	6.00	6.00
Own funds (capital) adequacy ratio N20.0	8.00	10.00

The following table shows the calculation of capital adequacy of the Group based on requirements set by the Bank of Russia as at 31 December 2016 and 2015:

32 Capital management (continued)

<i>in thousands of Russian Roubles</i>	2016	2015
Base capital	14 662 978	14 603 632
Main capital	14 662 978	14 603 632
Additional capital	11 562 168	12 429 949
Total regulatory capital	26 225 146	27 033 581
Risk weighted assets for N20.1	331 933 464	229 812 540
Risk weighted assets for N20.2	331 929 346	229 807 824
Risk weighted assets for N20.0	331 718 129	229 893 219
Ratio N20.1, %	4.75	6.35
Ratio N20.2, %	4.75	6.35
Ratio N20.0, %	8.50	11.76

At 31 December 2016 N20.2 capital adequacy ratio of the Group is below minimum level due to acquisition of JSC “VUZ-Bank” as subsidiary that, being under financial rehabilitation procedure (see Notes 36 and 37), had a negative effect over the capital of the Group. According to the financial rehabilitation plan, compliance to minimum level of main capital adequacy ratio should be in the 10th year since the plan start.

The Group maintains capital adequacy at level appropriate to the nature and volume of its operations. Mandatory ratios in accordance with the Bank of Russia requirements are calculated and controlled by the management as following: mandatory ratios of the Bank - on a daily basis, mandatory ratios of the Group – on a quarterly basis. The Group submits on a quarterly basis data of mandatory ratios calculation to territorial office of the Bank of Russia in the prescribed form.

In case values of capital adequacy ratios become close to set limits set by the Bank of Russia and Group's internal policy this information is communicated to the management of the Group. As at 31 December 2016 and 2015 N20.1 and N20.0 ratios of the Group are in compliance with the statutory capital requirements.

33 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. 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.

33 Contingencies and commitments (continued)

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

From 1 January 2012 the new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bringing them closer to the principles of the OECD. This also creates additional uncertainty due to the practical application of tax laws in some cases.

New transfer pricing rules require taxpayers to provide documentation of controlled transactions and defines new principles and tools for additional taxes and interest, if prices in controlled transactions differ from the market.

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

<i>in thousands of Russian Roubles</i>	2016	2015
Less than 1 year	499 477	311 302
From 1 to 5 years	220 845	193 480
More than 5 years	63 122	4 584
Total	783 444	509 366

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

Credit related commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments as at 31 December are as follows:

<i>in thousands of Russian Roubles</i>	2016	2015
Guarantees issued	6 904 189	5 410 548
Commitments to extend credit	6 151 480	4 678 590
Unused limits on overdraft loans	1 233 655	950 638
Import letters of credit	-	10 103
Total	14 289 324	11 049 879

33 Contingencies and commitments (continued)

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

Credit related commitments as at 31 December are denominated in the following currencies:

<i>in thousands of Russian Roubles</i>	2016	2015
Russian Roubles	14 205 293	10 624 777
USD	60 693	387 755
Euro	23 338	37 347
Total	14 289 324	11 049 879

Funds management and trust activities. The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

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

34 Financial derivatives

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2016 and 31 December 2015. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date.

34 Financial derivatives (continued)

<i>in thousands of Russian Roubles</i>	2016		2015 (restated)	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign currency forward contracts: fair values, at the reporting date, of				
- USD receivable on settlement	-	29 133 609	5 234 091	2 041 007
- USD payable on settlement	(49 687 373)	(12 859)	(47 470 908)	(4 422 407)
- Euro receivable on settlement	3 900 773	1 610 688	557 880	3 921 102
- Euro payable on settlement	(2 086 944)	-	(482 168)	(7 970)
- RUB receivable on settlement	75 481 889	12 845	55 840 322	91 627
- RUB payable on settlement	(2 542 074)	(33 650 904)	(5 270 944)	(2 394 228)
- Other currencies receivable on settlement	16 804	-	-	2 160
Net fair value of foreign currency forward contracts	25 083 075	(2 906 621)	8 408 273	(768 709)
Precious metals forward contracts: fair values, at the reporting date, of				
- USD receivable on settlement	-	-	-	190 035
- USD payable on settlement	(191 339)	-	(410 599)	-
- Precious metals receivable on settlement	194 269	-	411 438	-
- Precious metals payable on settlement	-	-	-	(190 160)
Net fair value of precious metals forward contracts	2 930	-	839	(125)
Foreign currency options: fair values, at the reporting date	8 634	-	1 573	-

Geographical, currency and maturity analyses of financial derivatives are disclosed in Note 31.
Information on related party transactions is disclosed in Note 38.

35 Fair value of financial instruments

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgment. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore may not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: 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 identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3: 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 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.

<i>in thousands of Russian Roubles</i>	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss:			
- fixed income debt instruments	55 171 064	-	55 171 064
- derivative assets	-	25 094 639	25 094 639
- derivative liabilities	-	(2 906 621)	(2 906 621)
Total	55 171 064	22 188 018	77 359 082

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.

<i>in thousands of Russian Roubles (restated)</i>	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss:			
- fixed income debt instruments	51 539 054		51 539 054
- derivative assets	-	8 410 685	8 410 685
- derivative liabilities	-	(768 834)	(768 834)
Financial assets available-for-sale			
- equity instruments	-	10 000	10 000
Total	51 539 054	7 651 851	59 190 905

35 Fair value of financial instruments (continued)

For more detailed information by types of financial instruments measured at fair value, please, see Notes 7 and 34.

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. Discount rates were determined based on rates of the Group as at 31 December 2016 and 2015.

Loans and receivables carried at amortised cost and investment securities held to maturity. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. To discount the future cash flows for loans to corporate customers and small and medium businesses the discount rates used were 11.28% and 17.54% respectively (31 December 2015: 15.79% and 19.41%). To discount the future cash flows for loans to individuals, the discount rate used was 19.44% (31 December 2015: 23.04%).

The fair value of investment securities held to maturity based on active market prices as at 31 December 2016 is RUB 89 989 740 thousand (31 December 2015: RUB 23 566 318 thousand).

The estimated fair value of due from other banks as at 31 December 2016 and 2015 approximates their carrying values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand discounted since the first day of potential notice.

The estimated fair value of term deposits of legal entities carried at amortised cost approximates their carrying values. To discount the future cash flows of term deposits of legal entities the Group used a discount rate of 9.86% (31 December 2015: 11.64%).

The estimated fair value of term deposits of individuals carried at amortised cost approximates their carrying values. To discount the future cash flows of term deposits of individuals the Group used a discount rate of 9.86% (31 December 2015: estimated fair value of term deposits of individual amounts to RUB 137 356 447 thousand).

The estimated fair value of subordinated loans carried as at 31 December 2016 is not significantly different from their carrying value (31 December 2015: RUB 14 242 147 thousand).

The estimated fair values of due to other banks and syndicated loans as at 31 December 2016 and 2015 approximates their carrying values.

The fair value of loan participation notes as at 31 December 2016 and 2015 is not significantly different from their carrying value. The estimated fair value of other debt securities in issue as at 31 December 2016 and 2015 approximates their carrying values.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices.

The objective of fair value estimation is to estimate the value for which the financial instrument may be exchanged between well-informed independent counterparties who have the real intention to make a deal, with most accuracy. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgment.

36 Group companies

As at 31 December 2016 the Group has the following main consolidated subsidiaries, structured entities that's financial results are accounted for in these consolidated financial statements:

The name	Country of incorporation	Principal activity	Share, %
Subsidiaries			
UBRD Finance DAC	Ireland	issue of debt securities	100,00
JSC “VUZ-Bank”	Russian Federation	banking	99,99
Structured entities			
LLC “UBRiR-Finance”	Russian Federation	management of securities	-
LLC “UBRiR-leasing”	Russian Federation	leasing company	-
LLC “Fininvest K”	Russian Federation	ownership of property and equipment of the Group	-
LLC “Invest Techno”	Russian Federation	ownership of property and equipment of the Group	-
UBRD Capital DAC	Ireland	issue of debt securities	-

As at 31 December 2015 the Group has the following main consolidated subsidiaries, structured entities and mutual funds:

The name	Country of incorporation	Principal activity	Share, %
Subsidiaries			
UBRD Finance DAC	Ireland	issue of debt securities	100,00
Structured entities			
LLC “UBRiR-Finance”	Russian Federation	management of securities	-
LLC “UBRiR-leasing”	Russian Federation	leasing company	-
LLC “Fininvest K”	Russian Federation	ownership of property and equipment of the Group	-
Sebright Finance Limited	United Kingdom	ownership of property and equipment of the Group	-
LLC “Invest Techno”	Russian Federation	ownership of property and equipment of the Group	-
UBRD Capital DAC	Ireland	issue of debt securities	-
Mutual funds			
Closed unit investment fund “Invest-Ural Kommercheskaya nedvizhimost”	Russian Federation	ownership of property and equipment of the Group	-
Closed unit investment fund “UBRR -Nedvizhimost”	Russian Federation	ownership of items of investment property of the Group	-
Closed unit investment fund “Antey”	Russian Federation	ownership of items of investment property of the Group	-
Closed unit investment fund “NIKS”	Russian Federation	ownership of items of investment property of the Group	-

36 Group companies (continued)

Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost" and opened unit investment funds were owned by the structured entity of the Group LLC "UBRiR-Finance".

As at 31 December 2016 the financial statements of CJSC "Stozhok", LLC UK "Invest-Ural", OUIF "Aktivnye investitsii", OUIF "Alternativniy protsent", OUIF "Bazovye otrasli", OUIF "Lombardniy spisok", OUIF "Mobilniy capital" were not included in the consolidated financial statements due to immateriality of assets and liabilities of these entities.

As at 31 December 2015 the financial statements of CJSC "Stozhok", LLC "Uralstroyinvestservice" and LLC UK "Invest-Ural", OUIF "Aktivnye investitsii", OUIF "Alternativniy protsent", OUIF "Bazovye otrasli", OUIF "Lombardniy spisok", OUIF "Mobilniy capital" were not included in the consolidated financial statements due to immateriality of assets and liabilities of these entities.

As at 31 December 2016 and 2015 all mutual funds are under the control of LLC UK "Invest-Ural".

For the year ended 31 December 2016 the changes in the Group structure were as following:

- As at 8 February 2016 the Group has lost its control over CUIF "Antey", CUIF "NIKS" and CUIF "UBRR-Nedvizhimost" due to sale JSC "VUZ-Bank" of investments in these companies (see Note 37);
- As at 11 February 2016 the Group has gained control over JSC "VUZ-Bank" (see Note 37). Since 1 July 2016 a new full trade name is Joint Stock Company "VUZ-Bank" (short trade name is JSC "VUZ-Bank"). Previous full trade name is Open Joint Stock Company "VUZ-Bank" (short trade name is OJSC "VUZ-Bank"). The change in name is made for compliance with the Federal law No. 99-FZ *On modification of chapter 4 part one of the Civil code of the Russian Federation and on expire of separate provisions of acts of the Russian Federation* dated 5 May 2014;
- As at 20 June 2016 CUIF "Invest-Ural Kommercheskaya nedvizhimost" was excluded from the group due to termination of activity of the company (see Note 37);
- As at 30 December 2016 the Group has lost its control over Sebright Finance Limited structured entity (see Note 37).

37 Business combination and disposal of subsidiaries

Business combination

From October 2015, the Group has been involved in activities aimed at rehabilitation of JSC "VUZ-Bank" (the rehabilitated bank). Bank rehabilitation constitutes a procedure, the main purpose of which is the economic and financial recovery of a credit and financial institution (bank). Relying on the analysis of the financial standing of the rehabilitated bank, the State Corporation Deposit Insurance Agency (SC DIA), together with the Bank of Russia, developed a Participation Plan for SC DIA to prevent the bankruptcy thereof. The Participation Plan was adopted by the Management Board of SC DIA and approved by the Banking Supervision Committee of the Bank of Russia in August 2015.

During the implementation of the Participation Plan in 2015, the following activities were carried out:

- On August 12, 2015, by order of the Bank of Russia, a temporary administration to manage the rehabilitated bank was introduced for a period of 6 months, the functions of which were assigned to SC DIA;
- On August 14, 2015, JSCB RUSSIAN CAPITAL (PJSC) granted a loan to the rehabilitated bank in the amount of RUB 1 900 000 thousand with maturity period of up to 1 year and interest rate of 6.01% per annum;
- On October 20, 2015, the rehabilitated bank repaid the above loan ahead of schedule;
- On September 15, 2015, pursuant to Part 4, Article 25.1 of Federal Law No. 395-1 dated December 2, 1990 On Banks and Banking Activity, the obligations of the rehabilitated bank under all Subordinated Loan (Deposit, Credit) Agreements that had been entered into before August 12, 2015 were terminated;
- On October 6, 2015, the temporary administration to manage the rehabilitated bank decided to necessarily reduce the size of the authorized capital up to one rouble and issue additional shares amounting to RUB 10 000 thousand;

37 Business combination and disposal of subsidiaries (continued)

- On October 16, 2015, SC DIA granted a loan to the rehabilitated bank in the amount of RUB 5 700 000 thousand for a period of 10 years with rate of 0.51% per annum;
- On November 23, 2015, the Bank of Russia registered an additional issue of ordinary registered shares of JSC “VUZ-Bank” in the amount of 220 billion pieces, with total nominal value of 10,000 thousand roubles;
- On November 25, 2015, the Group purchased 99.99% of the shares of the rehabilitated bank.

Pursuant to Federal Law No. 127-FZ dated October 26, 2002 On Insolvency (Bankruptcy), the following shall be suspended for the period of operation of the temporary administration to manage the bank: the powers of the bank’s governing bodies related to the decision-making on matters falling within their competence, as specified by the federal laws and the bank’s constituent documents, as well as the rights of the bank’s founders (members) associated with the equity holding.

Considering that on 31 December 2015, the rehabilitated bank was managed by the temporary administration and the Group had no possibility to maintain control, the investments into the rehabilitated bank were recorded in the line “Securities available-for-sale”.

On February 11, 2016, in connection with the implementation of all planned activities, the Bank of Russia decided to cease the activities of the temporary administration. Therefore, the Group acquired control over the rehabilitated bank on February 11, 2016. The General Meeting of Shareholders of the rehabilitated bank, held on the same day, approved the composition of the new Board of Directors, which further formed the Management Board of JSC “VUZ-Bank”.

The purpose of business combination is a synergetic effect from cooperation of the Group with the rehabilitated bank. The Group aims to retain personnel, client base and all best practices of the rehabilitated bank related to products, technologies and client service. The Group strategy implies advantageous offers for the clients and retaining personnel of the rehabilitated bank.

JSC “VUZ-Bank” carries out its activities since 1991. Its registered address is: 620142, 49, the 8th of March Street, Yekaterinburg, Russian Federation. The bank offers a wide range of services to retail and corporate clients, including SME. The bank is a member of the following professional financial unions: the Ural Banking Union, the Southern Urals Chamber of Commerce and Industry, the Chamber of Commerce and Industry of the Russian Federation, the Association of Russian Banks. JSC “VUZ-Bank” is also an associate member of Visa International Service Association and an affiliate member of MasterCard International Incorporated, and a member of the state deposit insurance system.

The fair value of purchase consideration transferred as at the date of acquisition is as following:

in thousands of Russian Roubles

Cash paid

10 000

37 Business combination and disposal of subsidiaries (continued)

The information on fair values of assets and liabilities recognized at the date of acquisition is as following:

<i>in thousands of Russian Roubles</i>	11 February 2016
Cash and cash equivalents	939 096
Mandatory cash balances with the Bank of Russia	88 817
Due from other banks	11 473 527
Loans and advances to customers – legal entities	9 755 293
Loans and advances to customers – individuals	1 974 296
Property and equipment	122 706
Other assets	2 022 676
Total assets	26 376 411
Due to other banks	15 126 894
Customer accounts - legal entities	972 602
Customer accounts - individuals	8 298 441
Debt securities in issue	9 030
Other liabilities	154 621
Other borrowed funds	1 804 848
Total liabilities	26 366 436
Total fair value of identifiable net assets	9 975

Preliminary estimation of goodwill at the date of acquisition is as following:

<i>in thousands of Russian Roubles</i>	11 February 2016
Fair value of purchase consideration transferred	10 000
Fair value of identifiable net assets	9 975
Goodwill from acquisition	25
<i>in thousands of Russian Roubles</i>	11 February 2016
Fair value of purchase consideration transferred	(10 000)
Less cash and cash equivalents in acquired subsidiary	939 096
Proceeds from acquisition of subsidiary (included in cash flows from investing activities)	929 096

Contract value of due from other banks before allowance for impairment is RUB 15 806 133 thousand. The best estimation of the amount of contractual cash flows, that are not expected to be received at the date of acquisition, is RUB 4 332 606 thousand.

Contract value of loans and advances to customers before allowance for impairment is RUB 14 356 389 thousand. The best estimation of the amount of contractual cash flows, that are not expected to be received at the date of acquisition, is RUB 2 626 800 thousand.

37 Business combination and disposal of subsidiaries (continued)

Disposal of subsidiaries

As at 8 February 2016 the Group has lost its control over CUIF "Antey", CUIF "NIKS" and CUIF "UBRR-Nedvizhimost" due to sale of investments in these companies.

The information on assets and liabilities of subsidiaries at the date of disposal is as following:

<i>in thousands of Russian Roubles</i>	8 February 2016
Cash and cash equivalents	115 063
Investment property	5 439 765
Other assets	36 690
Total assets	5 591 518
Other liabilities	91 914
Total liabilities	91 914
Total net assets	5 499 604

The table below shows purchase consideration received on sale:

<i>in thousands of Russian Roubles</i>	Fair value
Cash received	6 261 944
Less cash and cash equivalents in disposed subsidiaries	(115 063)
Proceeds from disposal of subsidiaries (included in cash flows from investing activities)	6 146 881

Profit of the Group from sale of subsidiaries, included in the consolidated statement of profit or loss, is RUB 762 340 thousand.

As at 20 June 2016 CUIF "Invest-Ural Kommercheskaya nedvizhimost" was excluded from the group due to termination of activity of the company.

The information on assets of the aforesaid company at the date of disposal is as following:

<i>in thousands of Russian Roubles</i>	20 June 2016
Cash and cash equivalents	934 422
Total assets	934 422
Total net assets	934 422

37 Business combination and disposal of subsidiaries (continued)

The table below provides information on consideration from CUIF "Invest-Ural Kommercheskaya nedvizhimost" disposal:

<i>in thousands of Russian Roubles</i>	Fair value
Cash received	934 422
Less cash and cash equivalents in disposed subsidiaries	(934 422)
Proceeds from disposal of subsidiaries (included in cash flows from investing activities)	-

Financial result from the operation of subsidiary disposal recognised in the consolidated statement of profit or loss is zero.

As at 30 December 2016 the Group has lost its control over structured entity Sebright Finance Limited.

The information on assets and liabilities of structured entity at the date of disposal is as following:

<i>in thousands of Russian Roubles</i>	30 December 2016
Cash and cash equivalents	350
Loans and advances to customers - legal entities	1 128 737
Receivables under commission and sale and purchase agreements of commodities and equipment	10 549 411
Other assets	269 092
Total assets	11 947 590
Due to other banks	5 643 890
Customer accounts - legal entities	5 457 623
Other liabilities	203 436
Total liabilities	11 304 949
Total net assets	642 641

Assets of the structured entity Sebright Finance Limited comprised the loan granted for Bank's head office construction activities, the amount of the loan was included in initial cost of certain property item. Being a part of company's net assets, this loan is disposed of due to disposal of the structured entity, thus, decreasing the carrying value of the building by RUB 246 482 thousand. According to Group's accounting policy, buildings are accounted for at revalued amount, so the carrying value of the building as at 31 December 2016 was adjusted up to its fair value. This revaluation is recognised in other comprehensive income net of deferred income tax in the amount of RUB 197 186 thousand.

37 Business combination and disposal of subsidiaries (continued)

The table below shows gross purchase consideration received on disposal of structured entity:

<i>in thousands of Russian Roubles</i>	Fair value
Cash received	-
Less cash and cash equivalents in disposed subsidiaries	(350)
Outflow of cash from disposal of subsidiaries (included in cash flows from investing activities)	(350)

Loss from disposal of structured entity, included in the consolidated statement of profit or loss, is RUB 642 641 thousand.

The amount of foreign exchange gains and losses, recognised in cumulative translation reserve in the amount of RUB 257 336 thousand was caused by the difference between functional currency and presentation currency of Sebright Finance Limited. Upon disposal of the structured entity this amount has been reclassified to profit or loss for the reported period.

38 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Gross amount of loans and advances to customers (contractual interest rates: 5.4%-18%)	278 915	8 679 749	28 590
Allowance for impairment of loans and advances to customers	(2 210)	(30 194)	(226)
Other assets	-	-	1 050
Customer accounts (contractual interest rates: 0%-13%)	200 799	3 450 444	33 975
Debt securities in issue (effective interest rate: 0%)	18 288	-	-
Other liabilities	-	-	10

The income and expense with related parties for the year ended 31 December 2016 are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Interest income	20 287	1 119 779	2 688
Interest expense	(23 850)	(190 332)	(2 999)
Fee and commission income	108	5 358	117
Fee and commission expense	(531)	-	(212)
Gain from trading in foreign currencies	-	66 236	1
Gain from trading in precious metals	-	108 551	-
Other operating income	1 052	-	30
Other operating expense	(47)	(13)	(616)

38 Related party transactions (continued)

At 31 December 2016 the other commitments with related parties are as follows :

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Guarantees issued by the Group	-	99 675	-

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

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Gross amount of loans and advances to customers (contractual interest rates: 10%-18%)	249 859	11 225 299	28 892
Allowance for impairment of loans and advances to customers	(1 266)	(36 791)	(146)
Other assets	-	7 651 328	105
Customer accounts (contractual interest rates: 0%-16.5%)	263 110	2 100 893	101 489
Precious metals forward contracts	-	144	-
Other liabilities	-	627	-

The income and expense with related parties for the year ended 31 December 2015 are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Interest income	14 781	1 280 438	2 522
Interest expense	(561)	(248 610)	(1 234)
Fee and commission income	148	11 726	114
Fee and commission expense	(389)	-	(212)
Other operating income	13	8	8
Other operating expense	126	(9)	(250)
Gain from trading in foreign currencies	-	1 809 212	82
Gain/(loss) from trading in precious metals	34	(117 434)	-

At 31 December 2015 the other commitments with related parties are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Guarantees issued by the Group	-	8 250	-

Other related parties represent seven members of the Management Board and five members of the Board of Directors of the Bank. In 2016 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 94 364 thousand (2015: RUB 90 410 thousand). Social security costs amount to RUB 15 230 thousand (2015: RUB 14 385 thousand) of the total remuneration of Group's management. Short term bonuses were fully paid during the year ended 31 December 2016.

39 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that land and premises stated at revalued amounts, and financial instruments at fair value through profit or loss stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. 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.

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.

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 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.

Operations between participants of the Group, the balances on the corresponding accounts and the unrealised income on operations between the enterprises of the Group are mutually excluded. Unrealised expenses also are mutually excluded, except cases when expenses cannot be compensated. The Bank and all its subsidiaries apply the uniform principles of accounting policies according to policy of the Group.

Main approaches to an assessment. Financial instruments are reflected at fair value or the amortised cost depending on their classification. The description of these assessment methods is given below.

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

39 Summary of significant accounting policies (continued)

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.

If an asset or a liability valued at a fair value, has both bid and ask prices, then short-term and long-term positions are valued at the ask price.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount of instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss for the period.

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with Bank of Russia and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value these include interbank placements and receivables on repurchase agreements with other banks with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

39 Summary of significant accounting policies (continued)

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Securities available-for-sale. This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available-for-sale are carried at fair value.

Investment securities held to maturity. Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that according to intention and ability of the Group will be held to maturity. Management determines the classification of investment securities held to maturity at the time of initial recognition. Investment securities held to maturity are carried at amortised cost.

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

Loans and advances to customers. The credits and advance payments to clients are reflected in financial statements when the Group provides money to clients in the form of advance payments for the purpose of acquisition or creation of the receivables which are not connected with derivative financial instruments and not having quotations in the open market, subject to repayment on the determined or defined date, and thus the Group has no intention to carry out trade operations with these receivables. The credits and advance payments to clients are considered at the amortised cost.

If at revision of conditions concerning financial assets the reconsidered conditions considerably differ from previous, the new asset originally admits at fair value.

The Group sales various loan portfolios. In case these transactions do not satisfy the derecognition criteria according to the IFRS, the Group continues to recognise the sold loans in the consolidated statement of financial position at the amortised cost and recognises liabilities for the sold loans in the amount of the consideration received. Subsequently the Group recognises interest income on the transferred assets and interest expenses on the recognised liabilities.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

39 Summary of significant accounting policies (continued)

- any installment of principal or interest is overdue
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the period. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Transactions on contracts of sale and return repayment of securities. Sale and repurchase agreements (repo agreements) which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

Promissory notes purchased. Promissory notes purchased are included in trading securities or in due from other banks or in loans and advances to customers, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

39 Summary of significant accounting policies (continued)

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses (if any). An impairment loss in respect of goodwill is not reversed.

The Group tests goodwill for impairment at each reporting date and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Property and equipment. Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and allowance for impairment, where required.

The Group's premises are regularly revaluated. Frequency of revaluation depends on change of fair value of these objects. The increase in balance cost of buildings as a result of revaluation is reflected in structure of the other cumulative income. However, this increase is subject to recognition in profit or loss to the extent in which it reverses the loss from revaluation on the same asset which is earlier recognised in profit or loss.

Reduction of balance cost of buildings as a result of revaluation is subject to recognition in profit or loss. However, the loss from revaluation has to be reflected in structure of the other cumulative income to the extent in which it reverses the previous increase in cost on the same asset which is earlier recognised in other cumulative income.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	1.3 - 2.5%
Equipment	11.8 – 33.3%

Intangible assets. All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 4 years.

39 Summary of significant accounting policies (continued)

Investment property. The property intended for receiving profit on leasing and/or increase in its market cost, instead of for sale in the course of usual economic activity, use by production or delivery of goods, rendering services or for administrative activity belongs to investment real estate. The investment real estate is estimated at acquisition cost less the saved-up depreciation and losses from depreciation (if any). If nature of using an item of investment real estate changes, it is subject to reclassification in category of fixed assets at balance cost for date of reclassification. The depreciation calculation method and depreciation rates on investment properties are similar to the method and rates of depreciation accrual on items of fixed assets from the category "Premises"

Non-financial assets impairment. Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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.

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 in the consolidated financial statements.

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less impairment where required. Upon completion the real estate items are included in investment property or assets held for sale, depending on the Group's intentions in respect of these items.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at the date of emergence of the rent relations using a discount rate defined at the date of the rent transaction (the date of the rent transaction is a date of the lease contract or date of confirmation by participants of the rent relations of basic rent provisions depending on which date came earlier).

The difference between not discounted cost of future rent payments and the sum of receivables represents the uncollected financial income. This income is recognised during the rent term using a method of an effective interest rate (before taxation) which assumes a fixed rate of return during all period of validity of the lease contract. The additional expenses which are directly connected with arranging rent relations are included in the initial sum of receivables on financial lease and reduce the income recognised during the lease period. The financial income on lease is recognised in "Interest income" item in profit or loss for the period.

Losses from impairment are recognised in profit or loss for the period as they occur as a result of one or more events (loss events) which occurred after initial recognition of financial lease receivables. For definition of existence of objective evidences of a loss from impairment the Group uses the same main criteria as for the above described loans and advances to customers carried at the amortised cost.

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their carrying value and fair value less costs to sell as at the reclassification date. Assets held for sale are not depreciated.

39 Summary of significant accounting policies (continued)

Due to other banks. Amounts due to other banks are represented in the consolidated financial statements when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds. Other borrowed funds include the subordinated and syndicated loans which are presented in the consolidated statement of financial position at amortised cost. Interest expenses on these liabilities are recorded in profit or loss. Subordinated loans rank after all other creditors in case of the Group's liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Forward transactions with precious metals. Forward transactions with precious metals include forward contracts for purchase/sale of precious metals denominated in cash. Balances on these transactions are measured at fair value changes of which are recognised in profit or loss for the period on gain / losses arising from transactions with precious metals.

Income tax. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss in full except amounts related to transactions recognised in other comprehensive income or transactions with shareholders recognised directly in equity, which are recognised within other comprehensive income or directly within equity respectively.

Operating costs on income tax are represented in the consolidated financial statements according to requirements of the legislation of the Russian Federation, using tax rates and legislative norms which are in the effect or actually came into force for reporting date. The current income tax is calculated based on the amounts payable to tax authorities or subject to be compensated by tax authorities concerning taxable profit or loss for current and previous periods. The taxable profit or loss are based on estimated indicators if the consolidated financial statements are approved before submission of the relevant tax declarations. Other tax expenses, except for income tax, are recognised in administrative and other operating expenses.

The deferred income tax is calculated in terms of temporary differences between the taxable base of assets and liabilities and their balance cost according to the consolidated financial statements. The deferred tax is not considered in terms of temporary differences arising at the initial recognition of an asset or liability if this transaction at the initial recognition does not have an impact neither on accounting, nor taxable income, except cases of the initial recognition resulting from the merger of companies.

Assets and liabilities for the deferred taxation are measured at tax rates of the taxation enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences or the deferred tax losses will be utilised. Deferred tax assets and liabilities are offset only within each separate company of the Group. Deferred tax assets for temporary differences reducing taxable base, and deferred tax losses are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The deferred income tax is calculated in terms of retained income of subsidiaries made after their acquisition except those cases when the Group controls the subsidiary's policy concerning dividends and there is a probability that temporary differences will not be reckoned in the near future in dividends or otherwise.

39 Summary of significant accounting policies (continued)

Provisions for liabilities and charges. 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.

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

Share premium. When shares are issued, the excess of contributions received (net of transaction costs), over the nominal value of the shares issued is recorded as share premium in equity.

Other reserves. Other reserves of the Group comprise revaluation reserve for property and equipment and cumulative translation reserve. The revaluation reserve for property and equipment included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. In case of a subsidiary or special purpose entity disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

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

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

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

The Group does not designate loan commitments as financial liabilities at fair value through profit or loss for the period.

The Bank receipts fee and commission income from the sale of package of banking services to customers, which are borrowers on consumer loans. Within purchase of package of services the customer has the right to join to the collective insurance programs, where the Bank is the policyholder and the insurance company assumes the insurance risk associated with the life, health and ability, job loss. Borrower determines for himself (herself) the necessity to purchase a package of banking services. The decision of the borrower in respect of the purchase of such package does not affect the interest rate offered to him (her). In case of purchase by a customer the package of banking services the Bank has a fee and commission income from the sale of this package, which is not an integral part of the overall profitability of consumer loans and recognised in profit or loss immediately at the moment the payment from the customers for banking services was made.

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

39 Summary of significant accounting policies (continued)

Foreign currency translation. The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. 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; and except for differences recognised cumulative translation reserve.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2016 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 60.6569 (31 December 2015: USD 1 = RUB 72.8827).

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

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

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

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

40 Events after reporting date

In January 2017 loans, provided to companies under common control have been partially repaid. As a result, the principal amount related the these loans has been decreased by RUB 2 975 812 thousand. Given that this repayment was carried out on 31 December 2016, the total amount of loans and advances to customers provided to companies under common control would be RUB 5 703 937 thousand as at 31 December 2016.

In the first quarter 2017 the collateral with fair value of USD 126 605 thousand, has been received by the Group, that's equivalent to RUB 7 679 456 thousand as at 31 December 2016. The collateral received relates to loans and advances to customers – legal entities, classified as with "No collateral or other credit enhancement" as at 31 December 2016 (see Note 11).

In January 2017 advanced repayment of the loan, provided by the State Corporation Deposit Insurance Agency, in the amount of RUB 193 579 thousand has been made by the Group.

Solovyev A.U.
President



Sirazov M.R.
Chief Accountant