Independent auditor's report
on the consolidated financial statements of
Expobank LLC
for 2016

March 2017

Contents

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Independent auditor's report

To the Participants and Board of Directors of Expobank LLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Expobank LLC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, including notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowances for impairment of loans issued

The appropriateness of allowance for impairment of loans issued is a key area of judgment for the Group's management. The identification of impairment and the determination of the recoverable amount involve a high level of subjectivity, use of assumptions and analysis of various factors, including the borrower's financial position, expected future cash flows and observable market prices for collateral. The Group's management approach to assessing and managing credit risk is described in Note 29 to the consolidated financial statements.

The use of various models and assumptions may significantly affect the estimates of the allowances for impairment of loans issued. Due to the significance of the loans issued, which in total comprise 22% of total assets, the estimation of the allowance for impairment was one of the key audit matters.

Our audit procedures included analysis of indicators of impairment, which differ depending on the type of credit product and client. We analyzed the methodology for assessing the allowance on the basis of the collective impairment, including with respect to the corporate, consumer and mortgage loans due to the significant amounts and the potential effect of changes in assumptions used. We also paid attention to significant individually impaired loans, as well as those loans that are most exposed to the risk of individual impairment.

Our audit procedures included testing of controls over the process of creating allowances for impairment of loans issued to individuals and legal entities, review of the methodology, testing of input data, analysis of assumptions used by the Group in calculation of the collective impairment, and the assessment of adequacy of allowances for issued loans with individual impairment indicators. In the course of our audit procedures, we analyzed consistency of the management assumptions used to assess the economic factors and statistical information on losses incurred and amounts recovered and how they correspond with generally accepted practice and our professional judgment. In respect of significant individually impaired loans we analyzed expected future cash flows, including the value of collateral, on the basis of our professional judgment and available market information.

We performed procedures with respect to the information disclosed in Notes 10, 29 to the consolidated financial statements.

Land and buildings revaluation

As of 31 December 2016, the carrying amount of land and buildings in the Group's property and equipment totaled RUB 1,355,100 thousand (Note 14), and the carrying amount of land and buildings in investment property totaled RUB 698,000 thousand (Note 13).

Land and buildings valuation was one of the most significant matters for our audit, since land and buildings account for a substantial portion of the Group's assets, and since the process of the fair value measurement by the Group's management is complex, highly subjective, uses assumptions and techniques based on comparative and income approaches, and is determined with participation of an independent external appraiser.

In the course of our audit procedures, we analyzed the land and buildings valuation report prepared by an independent external appraiser and reviewed the valuation methods applied with participation of our real estate valuation specialists.

We analyzed data disclosed in Notes 13 and 14 to the consolidated financial statements for completeness and compliance with the requirements of International Financial Reporting Standards.

Approaches to assessing the purchase price allocation in a business combination

In 2016, the Group purchased a 100% interest in the charter capital of the Royal Bank of Scotland CJSC. This acquisition is disclosed in detail in Note 35. We believe that assessing the purchase price allocation is a matter of most significance in the audit of the consolidated financial statements, as the financial result of this acquisition in the amount of excess of the fair value of the acquiree's net assets over the consideration paid totaled RUB 1,775,238 thousand and significantly affected the Group's net profit. Determining the fair value of assets and liabilities involves significant use of judgments and estimates by the management and is performed with participation of an independent appraiser.

In the course of the audit procedures, we reviewed the transaction documentation necessary to assess purchase price allocation in the business combination, tested, on a sample basis, estimates of the fair values of assets and liabilities, and engaged our experts in this field to review the valuation methods and assumptions used.

We performed procedures with respect to the information disclosed in Note 35 to the consolidated financial statements.

Other information included in the Bank's 2016 Annual report

Other information consists of the information included in the Bank's 2016 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2016 Annual report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and Board of Directors for the consolidated financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the results of our review in accordance with the requirements of Article 42 of Federal Law No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

The management of Expobank LLC is responsible for the Bank's compliance with the obligatory ratios established by the Central Bank of the Russian Federation (the "Bank of Russia") and for compliance by the Bank's internal control and risk management systems with the requirements set forth by the Bank of Russia in relation to these systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Law"), during the audit of the Bank's consolidated financial statements for the year ended 31 December 2016, we reviewed the following:

1) Whether the Bank complies as of 1 January 2017 with the obligatory ratios established by the Bank of Russia;

2) Whether the internal control and risk management systems of the Bank meet the requirements set forth by the Bank of Russia for these systems in respect of the following:

   - Subordination of risk management departments;
   - Methods approved by the Bank's respective authorized bodies for detecting and managing risks that are significant to the Bank and for performing stress-testing; a reporting system at the Bank pertaining to its significant risks and capital;
   - Consistency in applying and assessing the effectiveness of methods for managing risks that are significant to the Bank;
   - Oversight functions performed by the Board of Directors and executive management bodies to ensure that the Bank complies with internally established risk limits and capital adequacy requirements, and applies the risk management procedures in an effective and consistent manner.

This review was limited to procedures selected on the basis of our judgment, including inquiries, analysis, review of documents, comparison of the requirements, procedures and methods approved by the Bank with the requirements set forth by the Bank of Russia, and recalculation, comparison and reconciliation of digital values and other information.

The results of the conducted review are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of obligatory ratios calculated by the Bank as of 1 January 2017 were within the limits established by the Bank of Russia.

We did not perform any procedures regarding the Bank's accounting data, except for procedures we considered necessary to express our opinion on the fairness of the Bank's consolidated financial statements.

Compliance by the internal control and risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to these systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as of 31 December 2016, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We have found that the Bank's internal documents effective as of 31 December 2016 that establish the methodologies for detecting and managing credit, market, operational, general interest rate, legal, reputational, compliance and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also confirmed that, as of 31 December 2016, the Bank has a reporting system pertaining to credit, market, operational, general interest rate, legal, reputational, compliance and liquidity risks that are significant to the Bank and its capital.

- We found that the periodicity and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2016 with regard to the management of the Bank's credit, market, operational, general interest rate, legal, reputational, compliance and liquidity risks complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit function regarding the effectiveness of the Bank's relevant risk management methods as well as recommendations on their improvement.

- We found that, as of 31 December 2016, the competences of the Board of Directors and executive management bodies of the Bank included control over compliance by the Bank with internally established risk limits and capital adequacy requirements. For the purposes of control over the efficiency and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2016, the Board of Directors and executive management bodies of the Bank regularly review the reports prepared by the Bank's risk management departments and internal audit function and measures suggested to eliminate weaknesses.

The procedures pertaining to the internal control and risk management systems were conducted by us solely for the purposes of confirming the compliance of certain internal control elements and risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is A.V. Sorokin.

A.V. Sorokin
Partner
Ernst & Young LLC

31 March 2017

Details of the audited entity

Name: Expobank LLC
Record made in the State Register of Legal Entities on 5 November 2002, State Registration Number 1027739504760.
Address: Russia 107078, Moscow, ul. Kalanchevskaya, 29, building 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated Organization of Auditors "Russian Audit Union" (Association) ("SRO RSA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Expobank Group
Consolidated statement of financial position
As of 31 December 2016

(in thousands of Russian Rubles)	Notes	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	7	19,901,538	6,846,810
Obligatory reserve with the CBR		530,179	296,002
Trading securities, including:	8	10,272,689	6,231,246
- non-pledged trading securities		10,272,689	5,443,730
- pledged trading securities sold under direct repurchase agreements		–	787,516
Amounts due from other banks	9	2,648,273	10,006,199
Loans to customers	10	14,515,998	38,166,638
Finance lease receivables	11	20,898	67,668
Investment securities available for sale, including:	12	13,091,925	2,536,898
- non-pledged securities available for sale		13,091,925	2,536,898
Investment securities held to maturity, including:	12	2,283,112	3,303,175
- non-pledged securities held to maturity		2,283,112	2,974,293
- pledged held-to-maturity securities sold under direct repurchase agreements		–	328,882
Prepayment for current income tax liabilities		–	266,495
Intangible assets	15	35,631	35,290
Investment property	13	698,000	45,960
Property and equipment	14	1,440,353	2,128,160
Deferred tax assets	27	254,549	–
Other assets	16	206,013	1,409,322
Total assets		**65,899,158**	**71,339,863**
Liabilities			
Amounts due to other banks	17	1,851,213	13,052,611
Amounts due to customers	18	48,644,965	44,071,441
Debt securities issued	20	892,817	3,026,112
Income tax liabilities		346,933	–
Deferred tax liabilities	27	–	435,113
Other liabilities	19	962,244	315,494
Subordinated Eurobonds issued	21	1,212,854	1,452,835
Total liabilities		**53,911,026**	**62,353,606**
Equity			
Share capital	22	10,413,412	10,413,412
Share premium		548,256	548,256
Retained earnings / (accumulated loss), including dividends paid	22	364,127	(2,683,005)
Unrealized gains on revaluation of available-for-sale financial assets		270,563	338,106
Revaluation reserve for property and equipment		391,774	369,488
Total equity		**11,988,132**	**8,986,257**
Total liabilities and equity		**65,899,158**	**71,339,863**

Signed on behalf of the Management Board on 31 March 2017.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

Expobank Group
Consolidated statement of comprehensive income
As of 31 December 2016

(in thousands of Russian rubles)	**Notes**	**2016**	**2015**
Interest income	23	6,124,633	6,860,701
Interest expense	23	(3,584,486)	(3,707,277)
Net interest income		**2,540,147**	**3,153,424**
Allowance for impairment of amounts due from other banks, loans to customers and finance lease receivables	9, 10, 11	(754,632)	(41,527)
Net interest income after allowance for impairment of amounts due from other banks, loans to customers and finance lease receivables		**1,785,515**	**3,111,897**
Fee and commission income	24	520,086	508,796
Fee and commission expense	24	(112,237)	(77,323)
Gains less losses / (losses net of gains) from trading securities		122,836	(196,253)
Gains less losses / (losses net of gains) from derivative financial instruments		11,599	(1,045)
Gains less losses from dealing in foreign currencies		28,227	110,057
Gains less losses from foreign currency translation		211,284	17,732
Gains less losses / (losses net of gains) on sale of investment securities available for sale		284,654	(48,584)
Gains on sale of Eurobonds classified as amounts due from other banks and loans to customers		976,516	446,472
Other operating income	25	502,447	356,587
Other impairment and provisions	16, 19	(424,642)	(37,118)
Administrative and other operating expenses	26	(2,124,469)	(2,361,520)
Excess of acquirees' net assets over cost of investments	35	1,775,238	475,203
Profit before tax		**3,557,054**	**2,304,901**
Income tax	27	(509,922)	(394,809)
Profit for the year		**3,047,132**	**1,910,092**
Other comprehensive (loss)/income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized (losses)/gains on investment securities available for sale, net of tax		(67,543)	220,301
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment, net of tax	14	22,286	(78,771)
Other comprehensive (loss)/income for the year		**(45,257)**	**141,530**
Total comprehensive income for the year		**3,001,875**	**2,051,622**

(in thousands of Russian rubles)	Notes	Share capital	Share premium	Unrealized gains on revaluation of available-for-sale financial assets	Revaluation reserve for property and equipment	Retained earnings / (accumulated losses)	Total equity
Balance at 1 January 2015		**10,413,412**	**548,256**	**117,805**	**454,299**	**(4,599,137)**	**6,934,635**
Profit for the year		–	–	–	–	1,910,092	1,910,092
Other comprehensive income/ (loss) for the year		–	–	220,301	(78,771)	–	141,530
Total comprehensive income for the year		**–**	**–**	**220,301**	**(78,771)**	**1,910,092**	**2,051,622**
Disposal of the revalued property and equipment		–	–	–	(6,040)	6,040	–
Balance as of 31 December 2015		**10,413,412**	**548,256**	**338,106**	**369,488**	**(2,683,005)**	**8,986,257**
Profit for the year		–	–	–	–	3,047,132	3,047,132
Other comprehensive (loss)/ income for the year		–	–	(67,543)	22,286	–	(45,257)
Total comprehensive income for the year		**–**	**–**	**(67,543)**	**22,286**	**3,047,132**	**3,001,875**
Balance as of 31 December 2016		**10,413,412**	**548,256**	**270,563**	**391,774**	**364,127**	**11,988,132**

Expobank Group
Consolidated statement of cash flows
As of 31 December 2016

(in thousands of Russian rubles)	**Notes**	**2016**	**2015**
Cash flows from operating activities			
Interest received		6,148,330	7,042,539
Interest paid		(3,653,933)	(3,471,094)
Fees and commissions received		520,086	508,796
Fees and commissions paid		(105,932)	(77,323)
Losses from trading securities		6,619	(204,523)
Gains from dealing in foreign currencies		41,212	110,057
Proceeds from sale of loans to customers and finance lease receivables		2,261,739	817,259
Other operating income received		1,576,726	743,451
Administrative and other operating expenses paid		(2,019,370)	(2,132,993)
Income tax paid		(574,841)	(285,136)
Cash flows from operating activities before changes in operating assets and liabilities		**4,200,636**	**3,051,033**
Net (increase)/decrease in operating assets			
Obligatory reserve with central banks		(98,535)	115,281
Trading securities		(3,781,643)	823,428
Amounts due from other banks		16,800,673	(5,553,151)
Loans to customers		19,487,344	(8,074,566)
Other assets		1,901,584	(1,282,483)
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		(11,138,637)	25,065
Amounts due to customers		(2,289,029)	7,427,117
Debt securities issued		(158,820)	963,410
Other liabilities		609,492	22,803
Net cash (used in) / from operating activities		**25,533,065**	**(2,482,063)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	12,481	212,600
Purchase of investment securities available for sale		(12,672,965)	(1,551,889)
Proceeds from sale and redemption of investment securities available for sale		548,412	124,839
Proceeds from redemption of investment securities held to maturity		155,951	561,246
Acquisition of investment property	13	(5,603)	–
Proceeds from sale of investment property		55,991	–
Purchase of property and equipment	14	(17,438)	(22,951)
Proceeds from sale of property and equipment		1,413,743	87,549
Purchase of intangible assets	15	(10,313)	(8,494)
Net cash used in investing activities		**(10,519,741)**	**(597,100)**
Cash flows from financing activities			
Bonds issued that were purchased by the Group for subsequent resale		(1,916,351)	(549,073)
Proceeds from placement of previously purchased bonds		250,000	563,200
Issue of subordinated Eurobonds	21	–	1,252,618
Net cash from / (used in) financing activities		**(1,666,351)**	**1,266,745**
Effect of exchange rate changes on cash and cash equivalents		**(292,245)**	**485,385**
Net (decrease)/increase in cash and cash equivalents		**13,054,728**	**(1,327,033)**
Cash and cash equivalents, beginning	7	6,846,810	8,173,843
Cash and cash equivalents, ending	7	**19,901,538**	**6,846,810**

1 Principal activities

These consolidated financial statements of Expobank Limited Liability Company (the "Bank") and Expo Capital Designated Activity Company, its structural entity, engaged in placement of the Bank's debt securities on Vienna Stock Exchange, collectively referred to as the Group, have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016. In August 2016, in accordance with the Irish legislation Expo Capital Limited changed its legal form and was renamed to Expo Capital Designated Activity Company.

The Bank is neither direct nor indirect shareholder of Expo Capital Designated Activity Company. Expo Capital Designated Activity Company is a special purpose company, established by the Bank exceptionally for raising funds through issue of the Bank's debt securities on the Vienna Stock Exchange, therefore it shall be consolidated.

The Bank is a commercial bank which is owned by participants whose responsibility is limited with their shares. The Bank was set up in accordance with Russian regulations. As of 31 December 2016 and 2015, the Bank's shares were owned by:

Participant	2016 %	2015 %
Igor Vladimirovich Kim	66.6	66.6
German Alekseevich Tsoy	17.6	17.6
AVTOBAN Road Construction Company, OJSC	8.8	8.8
Kirill Vladimirovich Nifontov	2.7	2.7
Morelam Holdings Limited (Cyprus)	1.8	1.8
Oleg Igorevich Kirillov	1.1	1.1
Yuri Igorevich Koropachinsky	1.1	1.1
Other	0.3	0.3
Total	**100.0**	**100.0**

As of 31 December 2016, members of the Board of Directors and Management Board controlled 86.9% shares in the Bank (31 December 2015: 86.9%).

Principal activities

Business priorities of the Bank include comprehensive services for corporate clients and wealthy individuals, as well as mergers and acquisitions of banking assets. The Bank operates under general banking license No. 2998 issued by the Central Bank of Russia (CBR) on 6 February 2012 (supersedes license No. 2998 issued on 2 December 2008). The Bank is a member of the state deposit insurance program approved by Federal Law No. 177-FZ *On Insurance of Household Deposits in Russian Banks* dated 23 December 2003. The state deposit insurance system guarantees to pay a 100% compensation under deposits totaling up to RUB 1,400 thousand per one individual in case the CBR revokes the banking license or enforces a moratorium on payments.

On 1 April 2016, Expobank LLC purchased from the Royal Bank of Scotland Group a 100% interest in its Russian subsidiary the Royal Bank of Scotland CJSC (RBS CJSC). Starting from April 2016, the Bank obtained control over financing and operating activities of the subsidiary. In May 2016, the Royal Bank of Scotland CJSC was re-registered as Expobank Finance JSC. On 1 August 2016, Expobank LLC was reorganized by merging with Expobank Finance JSC (Note 35).

On 26 February 2015, Expobank LLC acquired 100% of voting shares in Mirninsky Commercial Bank MAK-Bank Limited Liability Company ("MAK-Bank LLC"). Starting from February 2015, the Bank obtained control over financing and operating activities of the subsidiary. On 22 June 2015, MAK-Bank LLC was merged with the Bank (Note 35).

1 Principal activities (continued)

Principal activities (continued)

As of 31 December 2016, the Bank had 5 branches (2015: 6 branches). All branches are located in the Russian Federation.

The Bank also operates through its additional offices and operating outlets in the Russian Federation. As of 31 December 2016, the Bank had 13 offices (2015: 16 offices).

As of 31 December 2016, the Bank employed 555 people (2015: 561 people).

The Bank is rated by major rating agencies. In October 2016, Fitch Ratings (the international rating agency) confirmed the international credit rating of the Bank at B+ with a stable outlook.

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments, investment property and buildings have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

As of 31 December 2016, the official rate of exchange used for translating foreign currency balances was USD 1 = RUB 60.6569 (31 December 2015: USD 1 = RUB 72.8827) and EUR 1 = RUB 63.8111 (31 December 2015: EUR 1 = RUB 79.6672).

3 Summary of accounting policies

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3 Summary of accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree, that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, either at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components of the non-controlling interest are measured at acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the subsidiary's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches

Depending on their classification, financial instruments are carried at fair value or amortized cost as described below. These valuation techniques are described below.

Fair value

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

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

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing 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 amortized over the whole expected life of the instrument. The present value calculation includes all fees and commissions paid and received between parties to the contract that are an integral part of the effective interest rate.

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 the trade date, which is the date when the Group commits to purchase or sell the asset. All other purchases are recognized when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a 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 needing to impose restrictions on the sale.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to the loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in the consolidated statement of comprehensive income is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

3 Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Cash and cash equivalents comprise interbank deposits with an original maturity of three months or less. The amounts that have any restrictions on use or placed for more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost (Note 7).

Obligatory reserve with the CBR

Obligatory reserves with the CBR are carried at amortized cost and represent non-interest bearing deposits with the CBR which are not available to finance the Group's day-to-day operations. Accordingly, they are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities

Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Financial assets other than those meeting the definition of loans and receivables are permitted to be reclassified from financial assets at fair value through profit or loss only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income in other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses on trading securities in the period in which they arise (Note 8).

Other securities at fair value through profit or loss

Other securities at fair value through profit or loss include financial assets that have been included in this category at initial recognition. Management classifies financial assets into this category only when (a) this classification eliminates or significantly reduces the accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing relevant gains and losses 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, and relevant information is disclosed to and reviewed by key management personnel of the Group on a regular basis. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Amounts 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 receivables due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost (Note 9).

Loans and advances to customers

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

The Group classifies purchased Eurobonds (non-derivative financial instruments) that are not quoted in an active market as assets with fixed or determinable payments and recognizes them in loans and advances to customers. The Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and advances to customers are carried at amortized cost (Note 10).

3 Summary of accounting policies (continued)

Impairment of financial assets carried at amortized cost

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any payment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- The borrower considers bankruptcy or a financial reorganization;
- 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 purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These 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 in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of a financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss for the year (Note 10).

Repossessed collateral

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

3 Summary of accounting policies (continued)

Credit-related commitments

The Group assumes credit related commitments, including letters of credit, financial guarantees and loan commitments. 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 originate a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific loan arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying amount of the loan on initial recognition. At the end of each reporting period, financial guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Investment securities available for sale

This category includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year. Other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

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

Financial investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of comprehensive income.

Sale and repurchase transactions and securities lending

Sale and repurchase agreements ("repos") for securities which actually provide a lender's return to the counterparty are treated as lending transactions collaterized by securities. Securities sold under sale and repurchase agreements are continued to be recognized. Securities are not reclassified to a separate item of the statement of financial position. The corresponding liability is presented within amounts due to other banks (Note 17).

3 Summary of accounting policies (continued)

Sale and repurchase transactions and securities lending (continued)

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

Promissory notes purchased

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

Investment property

Investment property is represented by land or buildings or parts of buildings held to earn rental income or for capital appreciation and which is not used by the Group or held for sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated statement of comprehensive income within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of comprehensive income and presented within other operating income or other operating expenses.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Goodwill

Goodwill is carried at acquisition cost less accumulated impairment losses, if any. Goodwill is tested for impairment at least annually or if there is any indication that it may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the improvement of performance as a result of business combination. These units or groups of units are treated as the basis for goodwill accounting and do not exceed the operating segment. When an asset is disposed from a cash-generating unit to which goodwill has been allocated, relevant gains and losses on the disposal include the carrying amount of goodwill related to the disposed asset and are generally determined in proportion to the share of the disposed asset in the cost of the cash-generating unit.

Property and equipment

Property and equipment, excluding land and buildings, are stated at cost, restated to the equivalent purchasing power of the Russian ruble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and allowance for impairment, where required.

3 Summary of accounting policies (continued)

Property and equipment (continued)

Land and buildings of the Group are revaluated with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are recorded in other comprehensive income as gains on revaluation of property and equipment. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Subsequent increase in the carrying amount is offset against previously recognized impairment losses. In case positive revaluation exceeds previously recognized decrease in cost, this excess is recognized in other comprehensive income. The revaluation reserve for land and buildings included in other comprehensive income is taken directly to retained earnings upon realization of the gain on revaluation when the asset is written off or disposed of. When no market information about the fair value is available, the fair value is determined based on income approach.

Management reviewed the carrying amount of land and buildings, which was determined by independent appraisers in accordance with the revaluation model based on market information at the end of the reporting period. Management believes that sufficient market information is available to confirm the reviewed fair value determined based on market approach.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacement of significant parts of property and equipment are capitalized with subsequent write-off of the replaced part.

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount at the disposal date are recognized (in other operating income or expenses) in profit or loss for the year (Notes 14, 25, 26).

Depreciation

Construction in progress is not subject to depreciation. Depreciation on other items of property and equipment is calculated using the straight-line method to write down the cost or revaluation to their residual values over their estimated useful lives:

	Useful lives (number of years)
Buildings	50
Computer equipment	5
Furniture and office equipment	10
Motor vehicles	10
Leasehold improvements	Over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year (Note 14).

3 Summary of accounting policies (continued)

Intangible assets

All the Group's intangible assets have definite useful lives and primarily include capitalized software and software licenses.

Acquired computer software licenses are capitalized 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 expected. Capitalized costs include expenses related to activities of software programming team and the respective part of overhead expenses. All other costs associated with computer software (e.g., its maintenance) are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful life of three years (Note 15).

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 recognized in profit or loss for the year (as rental expense in administrative and other operating expenses) on a straight-line basis during the lease term.

Amounts due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortized cost (Note 17).

Amounts due to customers

Amounts due to customers are non-derivative financial liabilities to individuals, state, public or corporate customers and are carried at amortized cost (Note 18).

Debt securities issued

Debt securities issued include promissory notes and bonds issued by the Group. Debt securities are carried at amortized cost.

Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest swaps, as well as currency options and forwards, are carried at fair value.

All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivative financial instruments). The Group does not apply hedge accounting (Note 32).

Income tax

Tax expenses were recognized in the consolidated financial statements in accordance with legislation at tax rates and legislative provisions enacted or substantively enacted at the end of the reporting period. Income tax expense comprises current tax and deferred tax and is recognized in profit or loss for the year except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than income tax, are recorded within administrative and other operating expenses (Note 26).

Deferred income tax is determined using the balance sheet liability method for deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Summary of accounting policies (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or deferred tax losses will be realized.

Deferred tax assets for deductible temporary differences and deferred tax losses are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Uncertain tax positions

The Group's uncertain tax positions are assessed by management at the end of each reporting period. Tax liabilities are recorded when management believes that additional tax liabilities may arise, if tax position of the Group is challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for obligations and charges

Provisions for obligations and charges are non-financial liabilities of uncertain timing or amount. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events. There is also the possibility of an outflow of economic benefits in settlement and the liability amount can be reliably measured.

Trade and other accounts payable

Accounts payable are recognized when the counterparty has fulfilled its obligations and are carried at amortized cost (Note 19).

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value, and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Income and expense recognition

Interest income and expense are recognized for all debt bearing instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts (Note 23).

3 Summary of accounting policies (continued)

Income and expense recognition (continued)

Fees and commissions pertaining to the effective interest rate include commissions paid or received from origination or acquisition of a financial asset or issue of a financial liability (e.g., commission for creditworthiness assessment, measurement or recognition of guarantees or collateral, settlement of instruments terms and conditions, and 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 classify loan commitments as financial liability at fair value through profit or loss (Note 24).

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows, and interest income is consequently recognized based on the asset's effective interest rate used to discount future cash flows in order to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Syndicated loan fees are recognized as income when syndication is complete, and the Group does not retain a portion of the loan portfolio, or when the Group retains a portion of the loan portfolio at the same effective interest rate as other parties to the transaction have. Fee and commission income that relate to transactions on behalf of third parties, e.g. acquisition of loans, shares and other securities received in the course of such transactions are recorded upon transaction closure.

Foreign currency translation

The Group's functional and presentation currency is the national currency of the Russian Federation, Russian ruble.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Group's functional currency at year-end official exchange rates of the CBR are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at the year-end rate does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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 such transactions are shown in fee and commission income.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Staff costs and related contributions

Salary expenses and contributions to the State Pension Fund and Social Insurance Fund and paid annual vacations and sick leaves, bonuses and non-cash benefits are accrued as the relevant services are rendered by the Group's employees. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond defined contribution plan payments.

3 Summary of accounting policies (continued)

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to management to make operational decisions. Segments where revenue, financial performance or combined assets are ten percent or more of revenue, financial performance or combined assets of all segments of the Group are reported separately.

Changes in presentation

Comparative data for the year ended 31 December 2015 have been adjusted to conform to the format of presentation for the reporting period, as follows:

- Investment property was reclassified to a separate line of the consolidated financial statement of financial position.

	As previously reported as of 31 December 2015	Adjustment	After adjustment as of 31 December 2015
Consolidated statement of financial position			
Other assets	1,455,282	(45,960)	1,409,322
Investment property	–	45,960	45,960

The adjustments affected the information disclosed in Note 16 “Other assets”. The adjustments had no effect on information disclosed in other notes.

4 Significant accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts and the carrying amounts of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances

The Group regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults 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. A 10% increase or decrease in the actual loss compared to the estimated loss would result in an increase or decrease in loan impairment losses of RUB 126,818 thousand (2015: RUB 56,102 thousand), respectively. Impairment loss on individually significant loans is determined based on the estimated amounts of discounted future cash flows on these loans considering loan maturity and sale of assets collateralized under the relevant loan. A 10% increase or decrease in the actual loss compared to the estimated future cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RUB 114,630 thousand (2015: RUB 41,460 thousand), respectively. In determining the impairment allowance for the loan portfolio, amounts due from other banks and for credit-related commitments as of 31 December 2016, the Group increased the loss identification period (LIP) from 0.25 to 1. As a result, the allowance increased by RUB 401,146 thousand, RUB 2,776 thousand and RUB 253,528 thousand, respectively.

4 Significant accounting estimates and judgments in applying accounting policies (continued)

Initial recognition of transactions with related parties

In the normal course of business the Group enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 34.

Buildings valuation

The Group's land and buildings are recorded at fair value which is determined based on the valuation report prepared by an independent appraiser. The valuation is performed by an independent appraiser engaged in valuation of similar assets in a similar region and of the same category. The market value of property and equipment is determined based on the market approach, because information about offers to sell similar assets is available in the market (Note 14). If, based on the valuation, the fair value of the Group's premises increases or decreases by 10%, the carrying amount of these items of property and equipment will increase or decrease by RUB 135,510 thousand (before deferred tax recognition) as of 31 December 2016 (2015: RUB 134,550 thousand).

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 33.

5 Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business in which the asset is used rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used to amortize intangible assets in very rare circumstances. These amendments did not have any impact on the Group, as the Group does not apply revenue-based methods to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 and be measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

5 Adoption of new or revised standards and interpretations (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early adoption permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. The amendments did not have any material impact on the Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

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

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group does not anticipate that these amendments will have any impact on its consolidated financial statements, as the Group is a non-investment company and does not have any investment entity holding companies, subsidiaries, associates and joint ventures.

5 Adoption of new or revised standards and interpretations (continued)

Annual improvements 2012-2014 cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods”. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase “and interim periods within those annual periods”, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

6 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2016 and which the Group has not early adopted, unless otherwise stated:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss, fair value through other comprehensive income, and amortized cost categories. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through other comprehensive income instruments as fair value through profit or loss instruments, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as instruments measured at fair value through other comprehensive income, with no subsequent reclassification of gains or losses to the statement of profit or loss. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at fair value through profit or loss, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to the adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

6 New accounting pronouncements (continued)

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for all recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

7 Cash and cash equivalents

(in thousands of Russian rubles)	**2016**	**2015**
Cash on hand	598,427	825,877
Cash balances with the CBR (other than obligatory reserve)	1,738,852	1,485,969
Settlement accounts with financial institutions	218,186	171,249
Correspondent accounts and overnight deposits with other banks	1,820,268	1,407,497
Loans issued to other banks with original maturities of less than three months	836,009	2,956,218
Reverse repurchase agreements with credit institutions up to 90 days	14,689,796	–
Total cash and cash equivalents	**19,901,538**	**6,846,810**

7 Cash and cash equivalents (continued)

As of 31 December 2016, settlement accounts with financial institutions are mainly represented by settlements with the National Clearing Center in the amount of RUB 210,869 thousand (2015: RUB 109,772 thousand), settlements with National Settlement Depository in the amount of RUB 75 thousand (2015: RUB 37,299 thousand) and settlements with payment systems in the amount of RUB 7,099 thousand (2015: RUB 24,114 thousand).

Correspondent accounts and overnight deposits with other banks as of 31 December 2016 and 31 December 2015 are represented by placements with Russian and foreign banks.

As of 31 December 2016 and 31 December 2015, loans issued to other banks with original maturities of less than three months are mainly represented by loans issued to large Russian and foreign banks with a contractual interest rate from 0.1% to 11.0% (2015: from 11.5% to 14.5%) and maturities in January 2017 (2015: in January 2016).

As of 31 December 2016, reverse repurchase agreements with credit institutions up to 90 days are represented by deposits with Russian banks placed for 10 to 90 days with an interest rate ranging from 1.20% p.a. to 10.85% p.a. These agreements are collateralized by shares and bonds of Russian and foreign companies, Russian banks, state corporations and subjects of the Russian Federation, as well as by Russian state bonds with a fair value of RUB 15,885,779 thousand.

The Group assesses the quality of cash and cash equivalents on the basis of ratings assigned by Standard and Poor's and, where they are not available, on the basis of ratings assigned by Moody's and Fitch Ratings and adjusted in line with categories of Standard and Poor's based on the reconciliation table.

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2016:

(in thousands of Russian rubles)	**Cash balances with the CBR other than obligatory reserve**	**Settlement accounts with financial institutions**	**Correspondent accounts and overnight deposits with other banks**	**Loans issued to other banks with original maturities of less than three months**	**Reverse repurchase agreements with credit institutions up to 90 days**	**Total cash and cash equivalents, excluding cash on hand**
Neither past due nor impaired						
- Central Bank of the Russian Federation	1,738,852	–	–	–	–	1,738,852
- A- to A+ rated	–	7,099	299,119	–	–	306,218
- BBB- to BBB+ rated	–	210,869	645,429	504,447	14,562,109	15,922,854
- B- to BB+ rated	–	–	578,767	319,058	127,687	1,025,512
- unrated	–	218	296,953	12,504	–	309,675
Total cash and cash equivalents, excluding cash on hand	**1,738,852**	**218,186**	**1,820,268**	**836,009**	**14,689,796**	**19,303,111**

As of 31 December 2016, unrated counterparties within settlement accounts with financial institutions are mainly represented by settlements with the National Settlement Depository.

As of 31 December 2016, cash and cash equivalents for 4 largest counterparty banks amounted to RUB 16,241,913 thousand (2015: RUB 3,300,504 thousand) or 82% (2015: 48%) of the total amount.

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2015:

(in thousands of Russian rubles)	**Cash balances with the CBR other than obligatory reserve**	**Settlement accounts with financial institutions**	**Correspondent accounts and overnight deposits with other banks**	**Loans issued to other banks with original maturities of less than three months**	**Total cash and cash equivalents, excluding cash on hand**
Neither past due nor impaired					
- Central Bank of the Russian Federation	1,485,969	–	–	–	1,485,969
- A- to A+ rated	–	24,114	143,467	–	167,581
- BBB- to BBB+ rated	–	109,772	2,812	–	112,584
- B- to BB+ rated	–	–	371,301	2,956,218	3,327,519
- unrated	–	37,363	889,917	–	927,280
Total cash and cash equivalents, excluding cash on hand	**1,485,969**	**171,249**	**1,407,497**	**2,956,218**	**6,020,933**

7 Cash and cash equivalents (continued)

As of 31 December 2015, unrated counterparties within settlement accounts with financial institutions are mainly represented by settlements with the National Settlement Depository.

Cash and cash equivalents are unsecured.

The analysis of cash and cash equivalents by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Estimated fair values of each category of cash and cash equivalents are shown in Note 33. Information on related party transactions is disclosed in Note 34.

8 Trading securities

(in thousands of Russian rubles)	**2016**	**2015**
Federal loan bonds (OFZ)	6,592,841	1,641,570
Corporate bonds	2,948,579	1,471,003
Bonds of banks	407,800	1,633,043
Corporate shares	208,203	34,716
Bonds of state corporations	100,192	566,405
Bonds of subjects of the Russian Federation	15,074	96,993
Total non-pledged trading securities	**10,272,689**	**5,443,730**
Federal loan bonds (OFZ)	–	787,516
Total pledged trading securities sold under direct repurchase agreements	**–**	**787,516**
Total trading securities	**10,272,689**	**6,231,246**

Corporate bonds are RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market. The analysis by maturity dates, annual coupon rates and yield to maturity is presented in the tables below.

Bonds of banks are represented by RUB-denominated interest-bearing debt securities issued by Russian banks and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Corporate shares are represented by RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market.

Bonds of state corporations are represented by RUB-denominated interest-bearing debt securities issued by Vnesheconombank and traded in the Russian market. The issuer of debt securities is not a commercial bank and its activities are regulated by special legislation. The analysis by maturity dates, annual coupon rates and yield to maturity is presented in the tables below.

Bonds of subjects of the Russian Federation are represented by RUB-denominated interest-bearing debt securities issued by regional authorities of the Russian Federation and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Pledged trading securities as of 31 December 2015 were represented by securities in the amount of RUB 787,516 thousand, which were sold under repurchase agreements and which could be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were fully completed in due time before 11 January 2016. Bank National Clearing Centre (JSC) was the counterparty bank under repurchase agreements as of 31 December 2015.

As of 31 December 2016, trading securities represented by bonds of banks with a fair value of RUB 3,606,947 thousand (2015: RUB 657,593 thousand) were restricted in use according to the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand. See Note 36.

8 Trading securities (continued)

The analysis of the non-pledged trading securities and trading securities pledged under direct repurchase agreements as of 31 December 2016 is as follows:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Bonds of banks	January 2017	May 2018	10.15	10.90
Federal loan bonds (OFZ)	April 2017	May 2032	2.50	11.90
Corporate bonds	March 2017	June 2021	9.50	13.25
Bonds of state corporations	September 2032	September 2032	9.75	9.80
Bonds of subjects of the Russian Federation	May 2017	May 2017	7.99	7.99

The analysis of the non-pledged trading securities and trading securities pledged under direct repurchase agreements as of 31 December 2015 is as follows:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Federal loan bonds (OFZ)	August 2016	January 2020	6.00	14.42
Bonds of banks	January 2016	September 2016	9.70	16.00
Corporate bonds	February 2016	September 2018	7.65	15.00
Bonds of state corporations	July 2016	October 2016	11.80	11.90
Bonds of subjects of the Russian Federation	November 2016	May 2017	7.49	8.77

The analysis of trading securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	**BBB- BBB+ rated**	**B- BB+ rated**	**Total**
Federal loan bonds (OFZ)	6,592,841	–	6,592,841
Corporate bonds	–	2,948,579	2,948,579
Bonds of banks	–	407,800	407,800
Corporate shares	4,951	203,252	208,203
Bonds of state corporations	–	100,192	100,192
Bonds of subjects of the Russian Federation	–	15,074	15,074
Total trading securities	**6,597,792**	**3,674,897**	**10,272,689**

The analysis of trading securities by credit quality as of 31 December 2015 is as follows:

(in thousands of Russian rubles)	**BBB- BBB+ rated**	**B- BB+ rated**	**Total**
Federal loan bonds (OFZ)	2,429,086	–	2,429,086
Bonds of banks	–	1,633,043	1,633,043
Corporate bonds	255,904	1,215,099	1,471,003
Bonds of state corporations	–	566,405	566,405
Bonds of subjects of the Russian Federation	–	96,993	96,993
Corporate shares	20,608	14,108	34,716
Total trading securities	**2,705,598**	**3,525,648**	**6,231,246**

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

Debt and equity securities are unsecured.

The analysis of trading securities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29.

9 Amounts due from other banks

(in thousands of Russian rubles)	**2016**	**2015**
Eurobonds of banks	2,629,612	10,008,915
Promissory notes of banks	23,377	–
Total amounts due from other banks	**2,652,989**	**10,008,915**
Less: allowance for impairment	(4,716)	(2,716)
Total amounts due from other banks	**2,648,273**	**10,006,199**

Eurobonds of banks are represented by interest-bearing debt securities denominated in foreign currency (USD, EUR), issued by large Russian banks.

As of 31 December 2015, Eurobonds in the amount of RUB 2,018,293 thousand were transferred under repurchase agreements.

The primary factor that the Group considers in determining whether amounts due from other banks are impaired is their past due status.

The analysis of movements in the allowance for impairment of amounts due from other banks during 2016 and 2015 is as follows:

	2016	**2015**
Allowance for impairment at 1 January	**2,716**	**–**
Charge for impairment during the year	2,000	2,716
Allowance for impairment of amounts due from other banks at 31 December	**4,716**	**2,716**

Amounts due from other banks are unsecured.

The analysis of amounts due from other banks by credit quality as of 31 December 2016 and 31 December 2015 is as follows:

(in thousands of Russian rubles)	**2016**	**2015**
Neither past due nor impaired		
- BBB- to BBB+ rated	714,307	1,769,536
- B- to BB+ rated	1,938,682	8,239,379
Total amounts due from other banks	**2,652,989**	**10,008,915**

Estimated fair values of each category of amounts due from other banks are shown in Note 33.The analysis of amounts due from other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on related party transactions is disclosed in Note 34.

10 Loans to customers

(in thousands of Russian rubles)	**2016**	**2015**
Large businesses	3,645,772	18,729,221
Medium businesses	9,489,472	9,519,907
Small businesses	1,370,030	5,001,809
Loans to individuals	1,278,907	5,476,724
Total loans and advances to customers before allowance for loan impairment	**15,784,181**	**38,727,661**
Less: allowance for loan impairment	(1,268,183)	(561,023)
Total loans and advances to customers	**14,515,998**	**38,166,638**

10 Loans to customers (continued)

Loans issued by the Group are subdivided into:

- Loans to large businesses (annual revenue of more than RUB 3 billion);
- Loans to medium businesses (annual revenue from RUB 400 million to RUB 3 billion);
- Loans to small businesses (annual revenue of up to and including RUB 400 million), and loans that were issued under the regional business lending program which the Group had implemented before 1 January 2009;
- Retail loans – consumer loans issued to individual customers.

As of 31 December 2015, loans to large businesses comprise accounts receivable under reverse repurchase agreements, which represent claims for repayment of funds under reverse repurchase agreements in the amount of RUB 80,211 thousand.

As of 31 December 2016, loans to large businesses comprise Eurobonds represented by interest-bearing debt securities denominated in foreign currency (USD, EUR), issued by large Russian and foreign companies in the amount of RUB 528,832 thousand (2015: RUB 11,865,644 thousand). As of 31 December 2015, Eurobonds in the amount of RUB 6,904,108 thousand were transferred under repurchase agreements.

The analysis of movements in allowance for loan impairment during 2016 is as follows:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Allowance for loan impairment as of 1 January 2016	**75,844**	**174,753**	**163,999**	**146,427**	**561,023**
Allowance / (reversal of allowance) for impairment during the year	498,911	291,323	23	(9,609)	780,648
Write-off against allowance on sale of loans	–	(4,676)	(30,999)	(18,733)	(54,408)
Loans written off against allowance	–	–	(19,080)	–	(19,080)
Allowance for loan impairment as of 31 December 2016	**574,755**	**461,400**	**113,943**	**118,085**	**1,268,183**
Individual impairment	513,255	57,310	64,576	79,313	714,454
Collective impairment	61,500	404,090	49,367	38,772	553,729
Allowance for loan impairment as of 31 December 2016	**574,755**	**461,400**	**113,943**	**118,085**	**1,268,183**
Total individually impaired loans (before allowance for impairment)	**513,255**	**57,310**	**427,833**	**93,068**	**1,091,466**

In 2016, the Group sold loans with a nominal value of RUB 2,142,631 thousand and an allowance for impairment of RUB 54,408 thousand for RUB 2,261,739 thousand.

10 Loans to customers (continued)

The analysis of movements in allowance for loan impairment during 2015 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Allowance for loan impairment as of 1 January 2015	**21,389**	**35,196**	**484,573**	**219,279**	**760,437**
Allowance / (reversal of allowance) for impairment during the year	54,455	139,557	(171,371)	36,134	58,775
Write-off against allowance on sale of loans	–	–	(60,294)	(108,327)	(168,621)
Loans written off against allowance	–	–	(88,909)	(659)	(89,568)
Allowance for loan impairment as of 31 December 2015	**75,844**	**174,753**	**163,999**	**146,427**	**561,023**
Individual impairment	–	57,926	104,376	73,630	235,932
Collective impairment	75,844	116,827	59,623	72,797	325,091
Allowance for loan impairment as of 31 December 2015	**75,844**	**174,753**	**163,999**	**146,427**	**561,023**
Total individually impaired loans (before allowance for impairment)	**–**	**127,811**	**228,018**	**116,070**	**471,899**

In 2015, the Group sold loans with a nominal value of RUB 985,880 thousand and an allowance for impairment of RUB 168,621 thousand for RUB 817,259 thousand.

As of 31 December 2016, loans net of allowance for impairment in the amount of RUB 703,730 thousand (2015: RUB 4,656,229 thousand) were purchased from banks that were not under common control. Bank counterparties guaranteed the repayment of the notional amount of loans transferred and interest accrued thereon in case of borrowers' failure to repay the debt.

In 2016 and in previous periods, the Group had loans in the amount of RUB 2,142,631 thousand (2015: RUB 985,880 thousand), which were transferred to a party that was not under common control. The Group is not exposed to non-payment risk as it provided no guarantee for the payment of interest and principal debt. These loans were derecognized in full on the date when the agreement was signed.

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

	2016		2015	
(in thousands of Russian rubles)	Amount	%	Amount	%
Residential construction	5,829,488	36.9	5,845,895	15.1
Manufacturing	1,821,407	11.5	3,752,556	9.7
Services	1,610,775	10.2	1,352,241	3.5
Wholesale and retail trade	1,569,459	9.9	3,224,430	8.3
Office and retail real estate	1,489,649	9.4	3,442,637	8.9
Individuals	1,278,907	8.1	5,476,724	14.1
Oil and gas industry	688,937	4.4	680,589	1.8
Infrastructure construction	617,541	3.9	437,423	1.1
Finance	528,832	3.4	12,836,688	33.1
Warehousing property	145,860	0.9	263,985	0.7
Agricultural industry	135,501	0.9	812,554	2.1
Transport and logistics	29,583	0.2	330,814	0.9
Telecommunications	12,510	0.1	24,492	0.1
Catering	1	0.0	133,362	0.3
Other	25,731	0.2	113,271	0.3
Total loans and advances to customers (before allowance for loan impairment)	**15,784,181**	**100**	**38,727,661**	**100**

10 Loans to customers (continued)

As of 31 December 2016, loans issued to 30 major borrowers amounted to RUB 13,512,826 thousand before deduction of allowance for loans impairment (2015: RUB 26,168,063 thousand), or 86% (2015: 68%) of the total amount of loans to customers.

The requirements to the level of loan collateralization are covered by the credit policy of the Group and depend on the type of transaction and the counterparty's credit risk exposure. The Group's priority activities include provision of loans secured by highly liquid collateral: cash (cash collateral accounts, promissory notes of the Bank, etc.), securities, real estate. No collateral can be provided under low-risk operations. The structure of the collateral and its level for certain loans are determined by authorized bodies of the Group (credit committees) in accordance with the credit policy.

The main types of collateral obtained are as follows:

- For financial market transactions, securities or cash;
- For commercial lending, charges over real estate properties, receivables and cash, guarantees of group entities and beneficiary owners;
- For retail lending, charges over motor vehicles, mortgages over residential properties, cash.

The Group regularly monitors safety of the collateral and its current market value under credit risk control procedures. In case of significant deterioration in the value of collateral, the Group requests additional collateral, if necessary.

The information on the loan portfolio by types of collateral as of 31 December 2016 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Unsecured loans	2,871,846	560,512	139,688	151,092	3,723,138
Loans secured by:					
- cash deposits	270,010	1,136,357	23,633	–	1,430,000
- promissory notes of Expobank	–	182,064	17,556	–	199,620
- securities and interests in share capital	510	996,212	196,355	–	1,193,077
- items of movable property	–	154,847	329,439	721,947	1,206,233
- items of immovable property	359,104	6,270,857	607,268	405,868	7,643,097
- other guarantees	–	40,028	–	–	40,028
- receivables under investment contracts	144,302	148,595	56,091	–	348,988
Total loans and advances to customers	**3,645,772**	**9,489,472**	**1,370,030**	**1,278,907**	**15,784,181**

The disclosures above show the lower of the carrying amount of the loan and collateral received; the remaining information is disclosed as unsecured loans. The carrying amount of loans was allocated based on the liquidity of assets received as collateral.

The information on the loan portfolio by types of collateral as of 31 December 2015 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Unsecured loans	15,946,442	2,282,599	1,110,471	1,702,445	21,041,957
Loans secured by:					
- cash deposits	53,972	628,480	356,749	–	1,039,201
- promissory notes of Expobank	–	293,354	785,176	–	1,078,530
- securities and interests in share capital	177,450	611,678	771,108	–	1,560,236
- items of movable property	311,623	119,556	169,519	3,228,017	3,828,715
- items of immovable property	1,817,610	5,584,240	1,759,269	546,262	9,707,381
- goods for sale	–	–	25,374	–	25,374
- receivables under investment contracts	422,124	–	24,143	–	446,267
Total loans and advances to customers	**18,729,221**	**9,519,907**	**5,001,809**	**5,476,724**	**38,727,661**

10 Loans to customers (continued)

The analysis of loans by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2016	–	785,359	21,712	9,265	816,336
- Loans renegotiated in previous reporting periods	–	–	–	19,026	19,026
- Standard portfolio	2,603,685	8,646,803	920,485	1,072,000	13,242,973
- Eurobonds	528,832	–	–	–	528,832
Total neither past due nor impaired	**3,132,517**	**9,432,162**	**942,197**	**1,100,291**	**14,607,167**
Past due but not impaired					
- less than 30 days past due	–	–	–	55,293	55,293
- 31 to 90 days past due	–	–	–	30,255	30,255
Total past due but not impaired	**–**	**–**	**–**	**85,548**	**85,548**
Individually impaired loans					
- without delays in payment	–	–	350,543	–	350,543
- 31 to 90 days past due	–	40,028	–	–	40,028
- more than 90 days past due	513,255	17,282	77,290	93,068	700,895
Total individually impaired loans	**513,255**	**57,310**	**427,833**	**93,068**	**1,091,466**
Total loans and advances to customers (before allowance for loan impairment)	**3,645,772**	**9,489,472**	**1,370,030**	**1,278,907**	**15,784,181**
Less: allowance for impairment	(574,755)	(461,400)	(113,943)	(118,085)	(1,268,183)
Total loans and advances to customers	**3,071,017**	**9,028,072**	**1,256,087**	**1,160,822**	**14,515,998**

10 Loans to customers (continued)

The analysis of loans by credit quality as of 31 December 2015 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2015	–	25,128	285,596	25,939	336,663
- Loans renegotiated in previous reporting periods	–	–	–	7,978	7,978
- Standard portfolio	6,863,577	9,366,968	4,445,406	5,105,933	25,781,884
- Eurobonds	11,865,644	–	–	–	11,865,644
Total neither past due nor impaired	**18,729,221**	**9,392,096**	**4,731,002**	**5,139,850**	**37,992,169**
Past due but not impaired					
- less than 30 days past due	–	–	42,789	161,991	204,780
- 31 to 90 days past due	–	–	–	58,813	58,813
Total past due but not impaired	**–**	**–**	**42,789**	**220,804**	**263,593**
Individually impaired loans					
- without delays in payment	–	–	81,850	–	81,850
- less than 30 days past due	–	127,811	22,646	–	150,457
- 31 to 90 days past due	–	–	658	–	658
- more than 90 days past due	–	–	122,864	116,070	238,934
Total individually impaired loans	**–**	**127,811**	**228,018**	**116,070**	**471,899**
Total loans and advances to customers (before allowance for loan impairment)	**18,729,221**	**9,519,907**	**5,001,809**	**5,476,724**	**38,727,661**
Less: allowance for impairment	(75,844)	(174,753)	(163,999)	(146,427)	(561,023)
Total loans and advances to customers	**18,653,377**	**9,345,154**	**4,837,810**	**5,330,297**	**38,166,638**

Loans renegotiated during the period represent the carrying amount of renegotiated loans that would otherwise be past due or impaired.

Past due but not impaired loans mainly include secured loans, with the fair value of collateral covering past due interest and principal. Amounts recorded as past due but not impaired represent the whole balance of such loans, and not only past due amounts of certain payments.

An allowance was charged for the Group's loan portfolio in accordance with IAS 39 *Financial Instruments*: *Recognition and Measurement* to cover losses from impairment identified and impairment which occurred in the reporting period but which was not yet identified as of the end of the reporting period. The Group's policy is to classify each loan as "neither past due nor impaired" until certain objective evidence of impairment is identified for a given loan. As a result of the application of this policy and the methodology for calculation of impairment of the portfolio, allowance for impairment may exceed the total final amount of individually impaired loans.

For the purposes of assessing the level of loan portfolio risks, identifying impairment and determining the amount of allowance, the Group relies on internal impairment criteria, and methodologies for assessment of counterparties' financial position and creation of allowances, which are consistent with the requirements of IFRS.

Estimated fair values of each category of loans to customers are shown in Note 33. The analysis of loans and advances to customers by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on related party transactions is disclosed in Note 34.

11 Finance lease receivables

As of 31 December, net investment in leases comprises:

(in thousands of Russian rubles)	2016	2015
Gross investment in finance leases	31,911	142,782
Unearned future finance income on finance leases	(1,525)	(10,020)
Net investment in leases before allowance	**30,386**	**132,762**
Less: allowance for impairment	(9,488)	(65,094)
Net investment in leases	**20,898**	**67,668**

The analysis of movements in allowance for impairment of finance lease receivables is as follows:

	2016	2015
Allowance for impairment as of 1 January	**65,094**	**89,212**
Reversal of allowance for impairment during the year	(28,016)	(19,964)
Write-off against allowance on sale of lease receivables	(27,590)	(4,154)
Allowance for impairment of finance lease receivables as of 31 December	**9,488**	**65,094**

In 2016, the Group sold finance lease receivables with a nominal value of RUB 28,730 thousand and allowance for impairment of RUB 27,590 thousand for RUB 1,140 thousand.

In 2015, the Group sold finance lease receivables with a nominal value of RUB 4,357 thousand and allowance for impairment of RUB 4,154 thousand for RUB 203 thousand.

The analysis of finance lease receivables as of 31 December 2016 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance leases	11,944	19,967	31,911
Unearned future finance income on finance leases	(1,039)	(486)	(1,525)
Net investment in leases before allowance	**10,905**	**19,481**	**30,386**

The analysis of finance lease receivables as of 31 December 2015 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance leases	117,815	24,967	142,782
Unearned future finance income on finance leases	(8,268)	(1,752)	(10,020)
Net investment in leases before allowance	**109,547**	**23,215**	**132,762**

12 Investment securities

Investment securities available for sale comprise the following:

(in thousands of Russian rubles)	2016	2015
Corporate bonds	8,126,104	381,204
Bonds of Russian banks	3,046,350	959,410
Bonds of state corporations	961,757	–
Corporate shares	957,714	1,196,284
Total investment securities available for sale	**13,091,925**	**2,536,898**

The analysis of debt securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Corporate bonds	Bonds of banks	Corporate shares	Bonds of state corporations	Total
Neither past due nor impaired					
- BBB- to BBB+ rated	1,442,267	–	–	–	1,442,267
- B- to BB+ rated	6,683,837	3,046,350	–	961,757	10,691,944
- unrated	–	–	957,714	–	957,714
Total investment securities available for sale	**8,126,104**	**3,046,350**	**957,714**	**961,757**	**13,091,925**

The analysis of debt securities by credit quality as of 31 December 2015 is as follows:

(in thousands of Russian rubles)	Corporate bonds	Bonds of banks	Corporate shares	Total
Neither past due nor impaired				
- B- to BB+ rated	381,204	959,410	–	1,340,614
- unrated	–	–	1,196,284	1,196,284
Total investment securities available for sale	**381,204**	**959,410**	**1,196,284**	**2,536,898**

The fair value of investment securities available for sale is determined based on the current market price as of the end of operations on 31 December.

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

The primary factor that the Group considers in determining whether debt securities are impaired is their past due status. As of 31 December 2016 and 31 December 2015, the Group had no past-due debt securities available for sale.

As of 31 December 2016, investment securities available for sale are represented by bonds of Russian issuers and shares of Russian and foreign banks with a fair value of RUB 13,091,925 thousand. See Note 33.

As of 31 December 2015, investment securities available for sale are represented by bonds of Russian issuers and shares of Russian and foreign banks with a fair value of RUB 2,536,898 thousand. See Note 33.

The analysis by maturity dates and annual coupon rates as of 31 December 2016 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Bonds of banks	May 2017	December 2022	3.98	9.50
Corporate bonds	October 2017	May 2021	2.93	8.7
Bonds of state corporations	February 2018	July 2020	3.04	6.90

The analysis by maturity dates and annual coupon rates as of 31 December 2015 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Bonds of banks	April 2016	July 2016	14.00	16.00
Corporate bonds	March 2016	April 2016	15.75	18.75

The analysis of investment securities available for sale by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on related party transactions is disclosed in Note 34.

12 Investment securities (continued)

Reclassifications

Following the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, during the second half of 2014 the Group reclassified investment securities available for sale, traded in an active market, to investments securities held to maturity due to the intention of the Group to hold them until maturity. The information about the reclassified assets is presented in the table below:

(in thousands of Russian rubles)	**2016**	**2015**
Carrying amount of reclassified assets as of 31 December	2,283,112	3,303,175
Fair value of reclassified assets as of 31 December	2,319,231	3,318,589
Fair value losses that would have been recognized on the reclassified assets in other comprehensive income for the year if the reclassification had not been made	101,109	(188,917)
Interest income	323,566	479,990
Losses less gains from sale of investment securities available for sale	(146,443)	(81,522)

Securities held to maturity comprise:

	2016	**2015**
Federal loan bonds (OFZ)	2,283,112	2,974,293
Total non-pledged investment securities held to maturity	**2,283,112**	**2,974,293**
Federal loan bonds (OFZ)	–	328,882
Total pledged investment securities sold under direct repurchase agreements	**–**	**328,882**
Total investment securities held to maturity	**2,283,112**	**3,303,175**

The analysis of debt securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	**Federal loan bonds (OFZ)**	**Total**
Neither past due nor impaired		
- BBB- to BBB+ rated	2,283,112	2,283,112
Total investment securities held to maturity	**2,283,112**	**2,283,112**

The analysis of debt securities by credit quality as of 31 December 2015 is as follows:

(in thousands of Russian rubles)	**Federal loan bonds (OFZ)**	**Total**
Neither past due nor impaired		
- BBB- to BBB+ rated	3,303,175	3,303,175
Total investment securities held to maturity	**3,303,175**	**3,303,175**

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

The primary factor that the Group considers in determining whether debt securities are impaired is their past due status. As of 31 December 2016 and 31 December 2015, the Group had no past due debt securities held to maturity.

Pledged investment securities held to maturity as of 31 December 2015 are represented by securities in the amount of RUB 328,882 thousand, which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were fully completed in due time before 11 January 2016. Bank National Clearing Centre (JSC) was the counterparty bank under repurchase agreements as of 31 December 2015.

12 Investment securities (continued)

Reclassifications (continued)

As of 31 December 2016, securities held to maturity represented by OFZ bonds with a fair value of RUB 210,804 thousand (2015: RUB 2,084,154 thousand) were restricted in use according to the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand. See Note 36.

In 2016, OFZ bonds in the amount of RUB 891,526 thousand were reclassified from the portfolio of investment securities held to maturity to the portfolio of investment securities available for sale. The reclassification was performed 3 months before the maturity in accordance with para 9 of IAS 39 *Financial Instruments: Recognition and Measurement*.

The analysis by maturity dates and annual coupon rates as of 31 December 2016 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Federal loan bonds (OFZ)	April 2017	February 2019	5.00	7.50

The analysis by maturity dates and annual coupon rates as of 31 December 2015 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Federal loan bonds (OFZ)	January 2016	February 2019	5.50	7.50

The analysis of investment securities held to maturity by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Estimated fair values of investment securities available for sale are shown in Note 33. The information on related party transactions is disclosed in Note 34.

13 Investment property

The movements of investment property were as follows:

	2016	**2015**
Balance as of 1 January	**45,960**	**–**
Additions	5,603	68,011
Transfers from property and equipment	653,081	–
Transfers from other assets	6,568	–
Disposals	(48,360)	–
Revaluation recognized in profit or loss	35,148	(22,051)
Balance as of 31 December	**698,000**	**45,960**

As of 31 December 2016 and 31 December 2015, the amounts of fair value of investment property are based on results of a valuation performed by an independent certified appraiser. For further details on the fair value of investment property refer to Note 33.

	2016	**2015**
Rental income from investment property	48,551	1,626
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income	(4,358)	(939)
Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income	(220)	–
	43,973	**687**

The Group is not subject to any restrictions related to the sale of investment property or any contractual liabilities to buy, construct, develop, repair, maintain or improve any items of investment property.

14 Property and equipment

(in thousands of Russian rubles)	Notes	Land and buildings	Office and computer equipment	Furniture	Motor vehicles	Leasehold impro-vements	Equipment not put into operation	Total property and equipment
Cost or valuation as of 1 January 2015		**1,523,761**	**540,655**	**79,873**	**28,934**	**25,481**	**2,031**	**2,200,735**
Accumulated depreciation and amortization		–	(526,815)	(47,343)	(5,204)	(3,153)	–	(582,515)
Carrying amount as of 1 January 2015		**1,523,761**	**13,840**	**32,530**	**23,730**	**22,328**	**2,031**	**1,618,220**
Acquisition of a subsidiary bank		683,322	10,355	19,626	611	–	–	713,914
Additions		–	93	2,458	12,276	8,074	50	22,951
Disposals		(43,843)	(43,091)	(3,557)	(7,148)	(669)	–	(98,308)
Reclassifications		–	351	128	–	–	(479)	–
Depreciation and amortization	26	(39,009)	(15,877)	(9,485)	(3,863)	(540)	–	(68,774)
Accumulated depreciation of disposed property and equipment		710	40,149	1,092	1,020	169	–	43,140
Recognition of revaluation through revaluation reserve		(98,464)	–	–	–	–	–	(98,464)
Recognition of impairment through profit or loss		(4,519)	–	–	–	–	–	(4,519)
Carrying amount as of 31 December 2015		**2,021,958**	**5,820**	**42,792**	**26,626**	**29,362**	**1,602**	**2,128,160**
Cost or valuation as of 31 December 2015		**2,021,958**	**508,363**	**98,528**	**34,673**	**32,886**	**1,602**	**2,698,010**
Accumulated depreciation and amortization		–	(502,543)	(55,736)	(8,047)	(3,524)	–	(569,850)
Carrying amount as of 31 December 2015		**2,021,958**	**5,820**	**42,792**	**26,626**	**29,362**	**1,602**	**2,128,160**
Acquisition of a subsidiary bank		1,204,388	–	–	–	–	–	1,204,388
Additions		–	3,913	2,134	9,504	1,887	–	17,438
Disposals		(1,203,122)	(59,882)	(17,866)	(2,688)	(5,286)	–	(1,288,844)
Reclassifications		–	581	972	–	–	(1,553)	–
Depreciation and amortization	26	(45,459)	(6,455)	(9,631)	(8,702)	(999)	–	(71,246)
Accumulated depreciation of disposed property and equipment		15,707	57,431	13,861	1,817	13	–	88,829
Transfers to investment property		(655,924)	–	–	–	–	–	(655,924)
Accumulated depreciation of transferred assets		2,843	–	–	–	–	–	2,843
Recognition of revaluation through revaluation reserve		27,857	–	–	–	–	–	27,857
Recognition of impairment through profit or loss		(13,148)	–	–	–	–	–	(13,148)
Carrying amount as of 31 December 2016		**1,355,100**	**1,408**	**32,262**	**26,557**	**24,977**	**49**	**1,440,353**
Cost or valuation as of 31 December 2016		**1,355,100**	**452,975**	**83,768**	**41,489**	**29,487**	**49**	**1,962,868**
Accumulated depreciation and amortization		–	(451,567)	(51,506)	(14,932)	(4,510)	–	(522,515)
Carrying amount as of 31 December 2016		**1,355,100**	**1,408**	**32,262**	**26,557**	**24,977**	**49**	**1,440,353**

Equipment not put into operation as of 31 December 2016 and as of 31 December 2015 comprises office equipment, computers and furniture purchased, which require additional costs to be prepared for operation. Upon completion of the works, these assets are to be transferred to the respective categories.

The land and buildings were revalued to market value as of 31 December 2016 and 31 December 2015 by an independent firm of professional appraisers who have a recognized qualification and recent experience in valuation of similar property in terms of its location and category.

14 Property and equipment (continued)

The market value is determined based on the comparable sales method. The market value of land and buildings is determined based on the price that a third party would pay for an item of property of similar quality and use. The market value of land and buildings was determined based on the information about sales and comparable properties offered in the market.

The carrying amount of the land and buildings as of 31 December 2016 includes the amount of RUB 489,717 thousand (2015: RUB 469,411 thousand), which represents the surplus from revaluation of the Group's buildings. Had the assets been carried at cost less depreciation, the carrying amount of land and buildings as of 31 December 2016 would have been RUB 865,383 thousand (2015: RUB 1,552,547 thousand).

The reconciliation of this amount with the carrying amount of buildings is as follows:

(in thousands of Russian rubles)	**31 December 2016**	**31 December 2015**
Land and buildings at revalued amount in the consolidated statement of financial position	1,355,100	2,021,958
Revaluation reserve presented within equity, before tax	(489,717)	(469,411)
Land and buildings at cost net of accumulated depreciation	**865,383**	**1,552,547**

15 Intangible assets

(in thousands of Russian rubles)	**Notes**	**Software and licenses**
Carrying amount as of 31 December 2014		**40,573**
Cost		
Balance at the beginning of the period		399,869
Additions		8,494
Disposals		(223,406)
Balance at the end of the period		**184,957**
Accumulated amortization		
Balance at the beginning of the period		359,296
Amortization charges	26	13,777
Disposals		(223,406)
Balance at the end of the period		**149,667**
Carrying amount as of 31 December 2015		**35,290**
Cost		
Balance at the beginning of the period		184,957
Additions		10,313
Disposals		(8,161)
Balance at the end of the period		**187,109**
Accumulated amortization		
Balance at the beginning of the period		149,667
Amortization charges	26	9,972
Disposals		(8,161)
Balance at the end of the period		**151,478**
Carrying amount as of 31 December 2016		**35,631**

Additions of intangible assets mainly represent the software and licenses purchased by the Group during 2016 to ensure compliance with the new procedures implemented by the Group. During 2016, intangible assets in the amount of RUB 10,313 thousand were purchased for cash (2015: RUB 8,494 thousand).

16 Other assets

Other financial assets comprise:

(in thousands of Russian rubles)	Notes	2016	2015
Receivables from the Deposit Insurance Agency		5,274	1,055,315
Credit and debit card receivables		90,987	123,901
Guarantee deposits		13,000	13,000
Derivative financial instruments	32	12,985	–
Other		1,635	1,656
Total other financial assets		**123,881**	**1,193,872**

As of 31 December 2016, settlements with the Deposit Insurance Agency for the amount of RUB 5,274 thousand (2015: RUB 1,055,315 thousand) are represented by receivables recognized in relation to compensation to be paid for the deposits with the banks, which had their licenses revoked by the Bank of Russia.

As of 31 December 2016, credit and debit card receivables include a security deposit for settlements with Master Card International in the amount of RUB 90,987 thousand (31 December 2015: RUB 109,324 thousand and security deposits with VTB BANK (DEUTSCHLAND) AG in the amount of RUB 14,577 thousand).

The analysis of other financial assets by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Derivative financial instruments	Receivables from the Deposit Insurance Agency	Credit and debit card receivables	Trade receivables	Other	Total
Neither past due nor impaired						
- A- to A+ rated	–	–	90,987	–	–	90,987
- BBB- to BBB+ rated	–	–	–	13,000	–	13,000
- unrated	12,985	5,274	–	–	1,635	19,894
Total other financial assets	**12,985**	**5,274**	**90,987**	**13,000**	**1,635**	**123,881**

The analysis of other financial assets by credit quality as of 31 December 2015 is as follows:

(in thousands of Russian rubles)	Receivables from the Deposit Insurance Agency	Credit and debit card receivables	Trade receivables	Other	Total
Neither past due nor impaired					
- A- to A+ rated	–	109,324	–	–	109,324
- BBB- to BBB+ rated	–	–	13,000	–	13,000
- B- to BB+ rated	–	14,577	–	–	14,577
- unrated	1,055,315	–	–	1,656	1,056,971
Total other financial assets	**1,055,315**	**123,901**	**13,000**	**1,656**	**1,193,872**

The primary factors that the Group considers in determining whether accounts receivable are impaired are their overdue status and realizability of related collateral, if any. As of 31 December 2016 and 31 December 2015, the Group had no past-due amounts within other financial assets.

The analysis of other financial assets by structure of currencies and maturities is presented in Note 29. Information on the fair value of each category of other financial assets is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

16 Other assets (continued)

Other non-financial assets comprise:

(in thousands of Russian rubles)	**2016**	**2015**
Repossessed collateral	32,890	120,378
Settlements with suppliers and contractors	31,497	51,614
Uncollectible receivables	22,883	8,757
Tax prepayments	6,009	7,197
Prepayment for services	2,559	4,025
Other	9,177	32,236
Less: allowance for impairment of uncollectible receivables	(22,883)	(8,757)
Total other non-financial assets	**82,132**	**215,450**

In 2016, the Group received collateral in the amount of RUB 29,100 thousand as a result of non-payments (2015: RUB 295,382 thousand). Subsequently, the Group sold repossessed collateral with the carrying amount of RUB 133,100 thousand (2015: RUB 145,985 thousand).

The analysis of movements in allowance for impairment of other non-financial assets during 2016 and 2015 is as follows:

(in thousands of Russian rubles)	**2016**	**2015**
Allowance for impairment as of 1 January	**8,757**	**7,378**
Allowance for impairment during the year	14,133	1,379
Other non-financial assets written off against allowance for impairment during the year	(7)	–
Allowance for impairment as of 31 December	**22,883**	**8,757**

17 Amounts due to other banks

(in thousands of Russian rubles)	**2016**	**2015**
Deposits of other banks	1,565,882	2,628,660
Correspondent accounts and overnight deposits of other banks	285,331	1,023,652
Direct repurchase agreements with the Bank of Russia	–	6,347,482
Direct repurchase agreements with other banks	–	3,052,817
Total amounts due to other banks	**1,851,213**	**13,052,611**

As of 31 December 2016, deposits of other banks include deposits of foreign banks in the amount of RUB 1,565,882 thousand (2015: RUB 2,503,232 thousand), maturing in January 2017 (2015: from January till November 2016) and bearing contractual interest rates from 0.15% to 9.50% (2015: from 0.15% to 9.75%).

As of 31 December 2015, amounts due to banks included liabilities in the amount of RUB 6,347,482 thousand under direct repurchase agreements with the Bank of Russia for securities maturing from January 2016 to April 2016 and bearing contractual interest rates of 1.14% and 2.71%.

As of 31 December 2015, minimum balances on correspondent accounts of other banks in the amount of RUB 1,006,585 thousand represented cash collateral under loans to individuals, as described in Note 10.

The analysis of amounts due from other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on the fair value of each category of amounts due from other banks is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

18 Amounts due to customers

(in thousands of Russian rubles)	2016	2015
State and public organizations		
- Current/settlement accounts	67,078	95,509
- Term deposits	1,000	1,050
Legal entities		
- Current/settlement accounts	7,784,113	3,460,077
- Term deposits	6,722,793	10,938,853
Individuals		
- Current accounts / demand accounts	3,168,280	2,054,003
- Term deposits	30,901,701	27,521,949
Total amounts due to customers	**48,644,965**	**44,071,441**

State and public organizations do not include commercial enterprises owned by the state.

A breakdown of amounts due to customers by economic sector is as follows:

	2016		2015	
(in thousands of Russian rubles)	Amount	%	Amount	%
Individuals	34,069,981	70.0	29,575,952	67.1
Oil and gas industry	3,280,675	6.8	2,825,416	6.4
Construction	2,235,287	4.6	2,938,836	6.7
Trade	2,142,015	4.4	2,604,664	5.9
Manufacturing	1,053,999	2.2	985,220	2.2
Real estate	915,872	1.9	719,916	1.6
Consulting services	794,713	1.6	889,548	2.0
Food industry	723,201	1.5	80,820	0.2
Logistics	541,229	1.1	549,053	1.2
Transport	475,822	1.0	290,627	0.7
Financial services	412,031	0.9	1,219,310	2.8
Services	411,908	0.8	127,280	0.3
Mining industry	359,109	0.7	425,385	1.0
Chemical industry	253,548	0.5	–	–
Telecommunications	161,495	0.3	38,358	0.1
Advertising and mass media	124,103	0.3	94,828	0.2
Non-for-profit organizations	96,882	0.2	115,406	0.3
Other	593,095	1.2	590,822	1.3
Total amounts due to customers	**48,644,965**	**100**	**44,071,441**	**100**

As of 31 December 2016, amounts due to customers include the amount of RUB 66,369 thousand (2015: RUB 113,190 thousand), which is collateral for irrevocable obligations under letters of credit, as described in Note 31.

As of 31 December 2016, amounts due to 10 largest customers was RUB 7,477,836 thousand (2015: RUB 8,218,576 thousand) or 15% (2015: 19%) of the total amounts due to customers.

As of 31 December 2016, term deposits of legal entities in the amount of RUB 760,991 thousand (2015: RUB 202,265 thousand) represented collateral under corporate loans granted by the Group amounting to RUB 2,437,578 thousand (2015: RUB 160,901 thousand).

The analysis by structure of currencies and maturities, and the analysis of interest rates for amounts due to customers are presented in Note 29. Information on the fair value of each category of amounts due to customers is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

19 Other liabilities

Other financial liabilities comprise:

(in thousands of Russian rubles)	Notes	2016	2015
Derivative financial instruments	32	1,386	1,045
Debit and credit card payables		257	148
Total other financial liabilities		**1,643**	**1,193**

The analysis of other financial liabilities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on the fair value of each category of other financial liabilities is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

Other non-financial liabilities comprise:

(in thousands of Russian rubles)	2016	2015
Provision for credit-related commitments	478,890	68,381
Taxes payable other than income tax	232,974	43,016
Accrued employee benefit costs	166,175	123,534
Settlements with suppliers and contractors	58,288	56,428
Other	24,274	22,942
Total other non-financial liabilities	**960,601**	**314,301**

The analysis of movements in the provision for credit-related commitments during 2016 and 2015 is as follows:

(in thousands of Russian rubles)	2016	2015
Provision for credit-related commitments as of 1 January	**68,381**	**32,642**
Allowance for impairment during the year	410,509	35,739
Provision for credit related commitments as of 31 December	**478,890**	**68,381**

20 Debt securities issued

(in thousands of Russian rubles)	2016	2015
Promissory notes	620,373	1,565,686
Deposit certificates	270,978	169,846
Domestic bonds issued	1,466	1,290,580
Total debt securities issued	**892,817**	**3,026,112**

As of 31 December 2016, debt securities issued comprised RUB-denominated bonds in the amount of RUB 1,466 thousand (2015: RUB 1,290,580 thousand). The nominal value of bonds issued was RUB 1,466 thousand (2015: RUB 1,291,032 thousand). These bonds mature on 12 July 2017 (2015: 3 July 2016) and bear a coupon rate of 10.5% (2015: 12.5%).

21 Subordinated Eurobonds issued

In October 2015, the Group placed subordinated Eurobonds with a nominal value of USD 20,000 thousand bearing an interest rate of 8.00% and maturing in April 2021. These subordinated Eurobonds were issued by Expo Capital Limited registered in Ireland. As of 31 December 2016, the amortized value of subordinated Eurobonds was RUB 1,212,854 thousand (31 December 2015: RUB 1,452,835 thousand).

22 Share capital

As of 31 December 2016, the authorized, issued and fully paid share capital amounted to RUB 10,413,412 thousand (2015: RUB 10,413,412 thousand).

In 2016 and 2015, the Group did not distribute its profit between the shareholders.

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

The Bank is a limited liability company. According to applicable Russian legislation, every member of a limited liability company has the number of votes proportionate to the member's interest in the company's share capital.

23 Interest income and expense

(in thousands of Russian rubles)	**2016**	**2015**
Interest income		
Loans and advances to customers	3,585,588	4,992,409
Amounts due from other banks	1,106,801	763,945
Investment securities available for sale	300,975	201,629
Investment securities held to maturity	264,724	342,788
Interest income on financial assets not measured at fair value through profit or loss	**5,258,088**	**6,300,771**
Trading securities	866,545	559,930
Total interest income	**6,124,633**	**6,860,701**
Interest expense		
Term deposits of individuals	2,447,722	1,814,025
Term deposits of legal entities	626,951	885,168
Term deposits of other banks	310,917	663,185
Debt securities issued	140,888	209,604
Current/settlement accounts	58,008	135,295
Total interest expense	**3,584,486**	**3,707,277**
Net interest income	**2,540,147**	**3,153,424**

Interest income for 2016 comprises interest income in the amount of RUB 24,279 thousand (2015: RUB 50,287 thousand) recognized for impaired loans to customers.

24 Fee and commission income and expense

(in thousands of Russian rubles)	**2016**	**2015**
Fee and commission income		
- Settlement operations	212,227	187,896
- Guarantees issued	169,641	201,424
- Plastic cards operations	59,359	30,296
- Cash operations	22,335	39,281
- Income from consulting and information services	17,576	9,722
- Other	38,948	40,177
Total fee and commission income	**520,086**	**508,796**
Fee and commission expense		
- Settlement operations	94,416	57,345
- Plastic cards operations	3,243	9,814
- Cash operations	6,305	5,622
- Other	8,273	4,542
Total fee and commission expense	**112,237**	**77,323**
Net fee and commission income	**407,849**	**431,473**

25 Other operating income

(in thousands of Russian rubles)	2016	2015
Income from disposal of property	174,067	71,097
Discount on receivables purchased	211,338	29,732
Income from operating leases	54,903	21,565
Repayment of amounts under a writ of execution	30,786	–
Penalties for breach of agreements	6,822	216,028
Other	24,531	18,165
Total other operating income	**502,447**	**356,587**

In 2016, the Group entered into transactions to purchase receivables from credit institutions. As of 31 December 2016, income received by the Group in the form of discount on receivables purchased amounted to RUB 211,338 thousand (2015: RUB 29,732 thousand).

26 Administrative and other operating expenses

(in thousands of Russian rubles)	Notes	2016	2015
Staff costs		1,418,951	1,315,067
Contribution to the state deposit insurance system		182,538	91,306
Taxes other than income tax		119,191	90,198
Rent expenses		102,628	115,717
Depreciation of property and equipment	14	71,246	68,774
Loss from disposal of property and write-off of low-value assets		70,690	86,605
Other expenses related to property and equipment		52,439	57,685
Telecommunication and information services		36,759	37,557
Expenses related to security services		19,144	23,567
Professional services		12,181	15,522
Amortization of software and other intangible assets	15	9,972	13,777
Insurance		9,282	29,844
Advertising and marketing services		9,021	7,776
Decrease in the carrying amount of other non-financial assets		–	119,210
Other		10,427	288,915
Total administrative and other operating expenses		**2,124,469**	**2,361,520**

Staff costs include insurance contributions in the amount of RUB 242,556 thousand (2015: RUB 207,239 thousand), of which RUB 162,748 thousand (2015: RUB 143,571 thousand) represent contributions to the pension fund.

Information on related party transactions is disclosed in Note 34.

27 Income tax

Income tax expense recognized in profit or loss for the year includes the following components:

(in thousands of Russian rubles)	2016	2015
Current income tax expense	1,188,269	59,363
Deferred income tax expense	(678,347)	335,446
Income tax expense for the year	**509,922**	**394,809**

Deferred tax recognized in other comprehensive income is allocated as follows:

(in thousands of Russian rubles)	2016	2015
Net (losses)/gains from investment securities available for sale	(16,886)	55,075
Revaluation of buildings	5,571	(19,693)
Income tax recognized in other comprehensive income	**(11,315)**	**35,382**

27 Income tax (continued)

The current income tax rate applicable to the majority of the Group's 2016 income is 20% (2015: 20%). A reconciliation of theoretical tax expense with actual is as follows:

(in thousands of Russian rubles)	**2016**	**2015**
Profit before tax	**3,557,054**	**2,304,901**
Theoretical tax expense at the statutory rate (20%)	**711,411**	**460,980**
Tax effect of income or expenses which are not deductible for taxation purposes:		
- Non-deductible expenses	15,503	20,174
- Income on government securities taxable at different rates	(35,552)	(12,450)
- Other permanent differences	30,185	21,146
Other differences	143,423	–
Gain from excess of acquired subsidiaries' net assets over cost of investments, net of financial result from disposal of subsidiaries	(355,048)	(95,041)
Income tax expense for the year	**509,922**	**394,809**

As of 31 December 2016, the Bank's tax losses to be carried forward to future tax periods amount to RUB 7,115 thousand (2015: RUB 1,937,285 thousand) and have no expiry dates in accordance with the applicable tax legislation of the Russian Federation. Benefit of RUB 1,423 thousand (2015: RUB 387,457 thousand) related to the tax loss in the amount of RUB 7,115 thousand (2015: RUB 1,937,285 thousand) was recognized in deferred tax assets of the Group as of 31 December 2016.

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and for the purposes of income tax assessment. Detailed below are the tax effects of the movements in these temporary differences which are recorded at the rate of 20% (2015: 20%), except for income on government securities taxable at the rate of 15% (2015: 15%) and income on dividends taxable at the rate of 13% (2015: 13%).

(in thousands of Russian rubles)	**31 December 2015**	**Reversed/ (charged) to profit or loss**	**Reversed/ (charged) directly to equity**	**Business combinations**	**31 December 2016**
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(264,820)	173,364	(5,571)	(179,011)	(276,038)
Intangible assets	12,620	(6,298)	–	–	6,322
Other financial and non-financial liabilities	44,219	79,487	–	–	123,706
Loans and advances to customers	(283,881)	339,586	–	–	55,705
Allowance for loan impairment	(65,385)	114,806	–	–	49,421
Finance lease receivables	(653)	(25)	–	–	(678)
Investment securities available for sale	(119,930)	276,431	16,886	–	173,387
Investment securities held to maturity	(5,155)	(42,321)	–	–	(47,476)
Fair value of trading securities	71,190	(28,861)	–	–	42,329
Amounts due from banks	(316,634)	337,289	–	–	20,655
Securities issued	51,499	(51,813)	–	–	(314)
Other assets	59,794	50,090	–	–	109,884
Subordinated Eurobonds issued	(5,434)	1,657	–	–	(3,777)
Tax losses carried forward	387,457	(386,034)	–	–	1,423
Net deferred tax asset/(liability)	**(435,113)**	**857,358**	**11,315**	**(179,011)**	**254,549**
Recognized deferred tax asset/(liability)	(435,113)	857,358	11,315	(179,011)	254,549
Total deferred tax	**(435,113)**	**857,358**	**11,315**	**(179,011)**	**254,549**

The above net deferred tax assets were recognized by the Group in 2016.

27 Income tax (continued)

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of certain companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group 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 taxation authority.

(in thousands of Russian rubles)	31 December 2014	Reversed/ (charged) to profit or loss	Reversed/ (charged) directly to equity	Business combinations	31 December 2015
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(261,189)	21,789	19,693	(45,113)	(264,820)
Intangible assets	16,706	(4,086)	–	–	12,620
Other financial and non-financial liabilities	22,799	21,420	–	–	44,219
Loans and advances to customers	54,088	(337,969)	–	–	(283,881)
Allowance for loan impairment	(51,757)	(13,628)	–	–	(65,385)
Finance lease receivables	19,144	(19,797)	–	–	(653)
Investment securities available for sale	(24,251)	(40,604)	(55,075)	–	(119,930)
Investment securities held to maturity	–	(5,155)	–	–	(5,155)
Fair value of trading securities	17,716	53,474	–	–	71,190
Amounts due from banks	(149,215)	(167,419)	–	–	(316,634)
Amounts due to banks	4,687	(4,687)	–	–	–
Amounts due to customers	14,775	(14,775)	–	–	–
Securities issued	3,957	47,542	–	–	51,499
Other assets	21,572	38,222	–	–	59,794
Subordinated Eurobonds issued	–	(5,434)	–	–	(5,434)
Tax losses carried forward	291,796	95,661	–	–	387,457
Net deferred tax asset/(liability)	**(19,172)**	**(335,446)**	**(35,382)**	**(45,113)**	**(435,113)**
Recognized deferred tax liability	(19,172)	(335,446)	(35,382)	(45,113)	(435,113)
Total deferred tax	**(19,172)**	**(335,446)**	**(35,382)**	**(45,113)**	**(435,113)**

The above net deferred tax liabilities were recognized by the Group in 2015.

28 Segment analysis

Operating segments are components of the company which are engaged in financial and business activities as a result of which they can receive profit or incur expenses. The results of their operating activity are regularly reviewed by the chief operating decision maker, and separate financial information is available on them. A person or a group of persons responsible for the allocation of resources and assessment of the company's performance may act as the chief operating decision maker. The functions of the chief operating decision maker are performed by the Chairman of the Management Board and executive directors from the Group's Board of Directors. The segment reporting is prepared using management accounting data which is based on the RAL accounting policy of the Group.

(a) Description of products and services that generate income for the reporting segments

The Group is organized into the following main business segments:

- Corporate banking – this segment includes taking deposits and providing loans to corporate customers, small and medium businesses, and individual entrepreneurs, servicing settlement accounts of organizations, providing credit lines in the form of overdrafts, bank guarantees, documentary and factoring operations, conducting operations with promissory notes, exercising currency control, and conducting cash management operations.
- Retail banking – this segment includes providing banking services to individual customers to open and maintain settlement accounts, take deposits, service debit and credit cards, and provide consumer, mortgage and auto loans, making money transfers, conducting settlement operations, and managing cash, as well as operations under cession agreements related to loans to individuals.
- Treasury – this business segment includes operations with securities and currencies, interbank lending, repo transactions, correspondent accounts and swap transactions.

28 Segment analysis (continued)

(b) Factors used by management to identify operating segments

The Group's segments represent strategic business units focusing on various customers. They are managed separately as every business unit requires specific marketing strategies and provides specific services to customers.

(c) Assessment of profit or loss, assets and liabilities of operating segments

Person responsible for making operational decisions analyzes financial information prepared in accordance with Russian regulatory requirements. This financial information in several aspects differs from the information prepared in accordance with the IFRS:

(i) Allowances for loans are recognized on the basis of management's professional judgment rather than on the basis of incurred losses model stipulated by IAS 39;

(ii) Fee and commission income from credit-related transactions is recognized immediately rather than in future periods using the effective interest rate method;

(iii) Income taxes are not allocated to segments;

(iv) Revaluation of property and equipment is performed in accordance with RAL accounting policy once a year;

(v) Property and equipment and intangible assets are not subject to impairment testing;

(vi) Group's liabilities related to payments to employees for unused vacations are not recognized.

Person responsible for making operational decisions assesses the results of segment activity in reliance on profit before tax.

(d) Information on profit or loss, assets and liabilities of operating segments

Segment information on reporting segments for the year ended 31 December 2016 is presented in the table below:

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
External income				
- Interest income	2,883,271	81,923	3,181,173	6,146,367
- Fee and commission income	489,013	63,569	–	552,582
Income from other segments				
- Interest income	(1,060,775)	3,217,908	(2,157,133)	–
Total income	**2,311,509**	**3,363,400**	**1,024,040**	**6,698,949**
Interest expense	(787,703)	(2,635,386)	(337,999)	(3,761,088)
Allowance for loan impairment	(368,482)	140,312	(240,638)	(468,808)
Depreciation and amortization	(113,620)	(129,387)	(25,631)	(268,638)
Fee and commission expense	(58,121)	–	(21,902)	(80,023)
Gains less losses from securities	–	–	1,592,639	1,592,639
Gains less losses from foreign currencies	–	–	45,677	45,677
Gains less losses from foreign currency translation	–	–	139,954	139,954
Administrative and other operating expenses	(420,423)	(478,761)	(94,841)	(994,025)
Segment results	**563,160**	**260,178**	**2,081,299**	**2,904,637**

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
Total segment assets	**14,617,859**	**2,120,571**	**48,826,683**	**65,565,113**
Total segment liabilities	**(16,598,574)**	**(33,912,594)**	**(2,732,087)**	**(53,243,255)**

As of 31 December 2016, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

28 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments (continued)

Segment information on reporting segments for the year ended 31 December 2015 is presented in the table below:

(in thousands of Russian rubles)	Corporate banking	Retail banking	Treasury	Total
External income				
- Interest income	2,445,167	285,998	3,818,081	6,549,246
- Fee and commission income	897,200	23,752	–	920,952
Income from other segments				
- Interest income	(275,473)	646,786	(371,313)	–
Total income	**3,066,894**	**956,536**	**3,446,768**	**7,470,198**
Interest expense	(1,050,386)	(1,931,948)	(713,358)	(3,695,692)
Allowance for loan impairment	(34,098)	(21,492)	(31,406)	(86,996)
Depreciation and amortization	(80,539)	(43,594)	(45,635)	(169,768)
Fee and commission expense	(23,390)	6,804	(18,113)	(34,699)
Gains less losses from securities	–	–	326,796	326,796
Gains less losses from foreign currencies	–	–	57,922	57,922
Gains less losses from foreign currency translation	–	–	177,641	177,641
Administrative and other operating expenses	(783,544)	(424,114)	(443,966)	(1,651,624)
Segment results	**1,094,937**	**(1,457,808)**	**2,756,649**	**2,393,778**

(in thousands of Russian rubles)	Corporate banking	Retail banking	Treasury	Total
Total segment assets	**22,962,863**	**5,628,191**	**43,088,385**	**71,679,439**
Total segment liabilities	**(17,095,405)**	**(29,784,591)**	**(15,701,991)**	**(62,581,987)**

As of 31 December 2015, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

Reconciliation of segment profit with profit before tax for the reporting year is presented below:

(in thousands of Russian rubles)	2016	2015
Segment profit	**2,904,637**	**2,393,778**
Excess of acquiree's net assets over the cost of investments	1,775,238	475,203
Reversal of RAL provisions and accrual of IFRS provisions	(750,832)	(70,151)
Adjustment of securities held to maturity to their amortized cost	40,847	88,608
RAL-to-IFRS adjustment of financial assets available for sale	167,136	(137,202)
Reversal of depreciation / (additional depreciation) of property and equipment in accordance with IFRS depreciation rates	82,489	41,311
Amortization of fee and commission income	194,094	(278,366)
Amortization of intangible assets	75,003	21,354
Adjustment of gains less losses from securities	(315,141)	–
Write-offs of other assets	(81,665)	(82,197)
Other	182,363	(68,069)
Allocation of consolidated subsidiaries	(717,115)	(79,368)
Profit before tax	**3,557,054**	**2,304,901**

(e) Analysis of income from products and services

The analysis of income from products and services is presented in Note 23 "Interest income and expense", Note 24 "Fee and commission income and expense" and Note 25 "Other operating income".

28 Segment analysis (continued)

(f) Geographical information

The Group carries out a significant part of its operations, receives income and incurs losses, and has assets and liabilities within the territory of the Russian Federation.

29 Risk management

Risk taking is the essence of financial business, and risk exposure is a key condition for operating in this business. The Group's management believes the effective risk management system is a basis for financial stability and a key factor of the Group's competitive ability, which determines its level of profitability and shareholders' value.

The Group is exposed to main financial risks (credit risk, market risk, general interest rate risk, liquidity risk), as well as to operational, compliance, legal and reputational risks.

The primary objective of risk management is to maximize the Group's long-term shareholder value. The operational, legal and reputational risk management is intended to ensure proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Risk management system

Board of Directors

The Board of Directors approves and monitors the implementation of the risk and capital management strategy, and controls risk exposure, compliance with the established risk limits, monitors implementation and effectiveness of the risk and capital management procedures.

Executive management bodies (Management Board, Chairman of the Management Board)

The executive management bodies are responsible for the implementation of the risk and capital management strategy, approve and ensure the implementation of the risk and capital management procedures, and control risk exposure.

Risk Management Function

The risk management function is responsible for risk management methodology development, risk identification, assessment and control at the level of individual transactions and the whole portfolio, including due diligence with respect to reports prepared by business units. The risk management function monitors the implementation of the strategy, policies and other procedures for risk and capital management, and presents risk reports to the business units, executive management bodies and Board of Directors.

The risk management function is supervised by a member of the Group's Management Board who is directly accountable to the Chairman of the Group's Management Board.

Business units

Business units are directly responsible for risk management on a daily basis: the owner of a business process is the owner of risks inherent in this business process. Business units identify, assess and control risks related to the transactions performed.

Internal Audit Function

The internal audit function performs regular reviews to monitor the implementation of the risk and capital management strategy, assesses the effectiveness of risk management procedures and checks how thoroughly the risk management methodology is implemented. The results of these reviews are communicated to the Board of Directors and the Management Board.

Credit risk

Credit risk is the risk that the Group will incur financial losses because its counterparties fail to discharge their obligations in full or in part or when due.

The Group assumes credit risk due to credit operations and other operations exposed to credit risk.

29 Risk management (continued)

Credit risk (continued)

The Group manages credit risk separately for each customer group (corporate customers, SME customers, individuals, financial institutions). Credit risk management comprises the following stages:

1. Risk identification

Risk identification is carried out during the stage of development and modification of loan products. At the risk identification stage, the Group identifies its exposure to credit risk, assesses the potential risk level and determines risk management methods.

Risk identification is carried out by employees of the risk management department.

2. Risk assessment

The Group assesses risk both at counterparties/transactions level and whole loan portfolio level. Risk associated with counterparties is assessed through internal PD (probability of default) assessment models (rating models) and models for assessment of losses in case of default.

Risk associated with loan portfolio is assessed using an extensive list of quantitative indicators (concentration ratios, transfer ratios, vintage curves, etc.).

Counterparty risks are assessed by business units employees subject to obligatory independent control by risk management departments. Loan portfolio risk is assessed by employees of the risk management department.

3. Risk control

The Group uses the following instruments to control credit risk:

- Setting limits and control over compliance with limits;
- Taking measures on risk mitigation (collateral, insurance, risk-based pricing);
- Risk level monitoring (counterparties, portfolio);
- Taking early response measures;
- Reporting on risk level.

High-level limits (the Group's risk appetite) are set under risk management strategies and policies approved by the Board of Directors and the Management Board. Limits for separate counterparties and groups of related counterparties, concentration limits, etc. are set by decisions of collegial bodies (Board of Directors, Management Board, Credit Committees) or the Group's authorized persons depending on the sum and type of a limit. Control over compliance with limits is carried out on a continuous basis by employees of business units and risk management department.

The primary way to mitigate credit risk is to secure counterparties' liabilities by a pledge of property. The value of the collateral is assessed by independent appraisers or by the Group's employees using internal assessment methods. Credit risk mitigation is also achieved through application of such instruments as insurance (of collateral, title or borrowers' lives) and risk-based pricing of loan products/transactions.

In order to update risk level assessment and implement early response measures, the Group regularly monitors financial position of counterparties (analyses financial statements and their business, etc.), updates assessments of internal credit ratings, monitors safety of the collateral and revaluates it, and monitors the risk level of the loan portfolio.

In case the Group reveals any evidence of risk increase, it develops and introduces early response measures in a timely manner: at the level of separate transactions – immediate financial monitoring, taking additional collateral, restructuring, etc., at the level of portfolio – review of limits, introduction of changes in loan products, etc.

Employees of risk management department prepare report on loan portfolio risk on a continuous basis and present it to business units and the Group's management in a timely manner.

29 Risk management (continued)

Credit risk (continued)

The information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2016 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**
Rating 3 counterparties	962,630	120,910
Rating 4 counterparties	310,139	135,501
Rating 5 counterparties	1,418,322	460,155
Rating 6 counterparties	441,426	8,614,081
Rating 8, 9, 10 counterparties	513,255	158,825
Total loans and advances to customers (before allowance for loan impairment)	**3,645,772**	**9,489,472**
Less: allowance for impairment	(574,755)	(461,400)
Total loans and advances to customers	**3,071,017**	**9,028,072**

The information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2015 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**
Rating 3 counterparties	6,859,527	–
Rating 4 counterparties	5,281,950	623,454
Rating 5 counterparties	2,636,349	525,722
Rating 6 counterparties	3,905,557	8,242,920
Rating 7 counterparties	45,838	127,811
Total loans and advances to customers (before allowance for loan impairment)	**18,729,221**	**9,519,907**
Less: allowance for impairment	(75,844)	(174,753)
Total loans and advances to customers	**18,653,377**	**9,345,154**

Below are the descriptions/characteristics of a scale of internal credit ratings applied by the Group to large and medium corporate counterparties:

Rating 1

Rating 1 counterparties are characterized by a very high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest enterprises with a stable (leading) position in the market, including enterprises that operate internationally.

Rating 2

Rating 2 counterparties are characterized by a high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest national enterprises with a leading position in the market.

Rating 3

Rating 3 counterparties are characterized by an adequate ability to fulfill their obligations in time and in full. These counterparties are mainly large national enterprises with an adequately stable position in the market.

29 Risk management (continued)

Credit risk (continued)

Rating 4

Rating 4 counterparties fulfill their obligations in time and in full, but negative changes of economic situation may lead to a decreasing ability to fulfill obligations in the medium term. These counterparties are mainly large and medium regional enterprises with a significant market share in their region.

Rating 5

Rating 5 counterparties fulfill their obligations in time and in full, but negative changes of economic situation are likely to lead to a decreasing ability to fulfill obligations adequately. These counterparties are mainly companies that operate in local markets and risk losing their position in business, e.g., when larger players enter the market. Besides, larger companies with aggressive financial policy are also included into this category.

Rating 6

Rating 6 counterparties fulfill their obligations in time and in full, but the ability to fulfill obligations adequately may decrease even in a favorable economic environment. This group mainly comprises small companies, whose market positions are vulnerable in case larger competitors enter the market (increase their market share). Larger companies with excessive debt burden or negative trends in business may also be included in this category.

Rating 7

Rating 7 counterparties (on a watch-list/pre-default) do not fall under criteria of default adopted by the Group, with the probability of default of at least 50% over a 1 year horizon.

Ratings 8, 9, 10

Rating 8, 9, 10 counterparties fall under criteria of default (impairment) adopted by the Group and differentiate between themselves in accordance with sources and possibilities of repaying their debt to the Group.

Market risk

Market risk is the risk that the Group will incur financial losses due to changes in market prices of financial instruments, including exchange and interest rates. Market risk comprises price, currency and interest rate risk.

Market risk arises from open positions in equity, debt, currency and interest rate financial instruments exposed to general and specific changes in the market.

The Group manages market risk centrally:

- Risk identification, assessment and control – employees of the risk management departments;
- Decision making in market risk management, including setting risk limits – Asset and Liability Committee;
- Management of open positions in financial instruments exposed to market risk – Treasury.

The Group opens positions in financial markets to develop customer business and manage liquidity. Opening of own speculative positions is not allowed.

Quantitative assessment of market risk is performed on a daily basis using Value-at-Risk methodology (“VaR”). VaR is a technique that estimates the potential losses that could occur on positions, which will not be exceeded over a specified period of time at a given confidence level. The Group uses the following parameters of VaR model: confidence level – 99%; period of time (projection horizon) – 10 working days; VaR valuation method – historical, using statistical data for the last 12 months.

29 Risk management (continued)

Market risk (continued)

Although VaR is a common tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, which include the majority of the debt and equity instruments traded in Russia:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios;
- A 10-day projection horizon assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% possibility that losses will exceed VaR;
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

Price risk

Price risk is the risk that the Group will incur financial losses due to changes in market prices of financial instruments.

The Group manages price risk using the following instruments:

- Price risk assessment for open positions;
- Limitation of types of financial instruments, for which opening of positions is possible;
- Setting price risk limits and control over compliance with these limits;
- Diversification of portfolios.

As of 31 December 2016, VaR for the equity securities portfolio amounted to RUB 30,271 thousand (2015: RUB 3,819 thousand).

Currency risk

Currency risk is the risk that the Group will incur financial losses due to changes in exchange rates.

The Group manages currency risk using the following instruments:

- Currency risk assessment for open currency positions;
- Setting currency risk limits and control over compliance with these limits;
- Hedging currency risk using derivative financial instruments.

The table below presents sensitivities of financial result to reasonably possible changes in exchange rates applied at the end of the reporting period, whereas all other variables remain the same:

	As of 31 December 2016		As of 31 December 2015	
(in thousands of Russian rubles)	**Effect on profit or loss**	**Effect on equity**	**Effect on profit or loss**	**Effect on equity**
USD strengthening by 20.00% (2015: strengthening by 40.00%)	98,068	98,068	88,150	88,150
USD weakening by 20.00% (2015: weakening by 13.00%)	(98,068)	(98,068)	(28,637)	(28,637)
EUR strengthening by 20.00% (2015: strengthening by 43.00%)	4,798	4,798	28,439	28,439
EUR weakening by 20.00% (2015: weakening by 15.00%)	(4,798)	(4,798)	(9,917)	(9,917)
CZK strengthening by 20.00% (2015: strengthening by 43.00%)	18,871	18,871	75,179	75,179
CZK weakening by 20.00% (2015: weakening by 15.00%)	(18,871)	(18,871)	(26,046)	(26,046)

29 Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the Group will incur financial losses due to changes in interest rates.

The Group is exposed to interest rate risk due to realization of trade operations with debt securities.

The Group manages interest rate risk using the following instruments:

- Interest risk assessment;
- Narrowing the gap between assets and liabilities by terms of revaluation of interest rates broken down by separate currencies.

As of 31 December 2016, VaR for the debt securities portfolio amounted to RUB 1,487,764 thousand (2015: RUB 2,504,559 thousand).

Liquidity risk

Liquidity risk is the risk that the Group will incur financial losses due to the Group's inability to meet its financial obligations in time, in full and at minimal cost.

Liquidity risk exists when the maturities of assets and liabilities do not match.

The Group manages liquidity risk centrally:

- Strategic management – the Assets and Liabilities Committee;
- Operative management – Treasury.

The Group uses the following liquidity risk management methods:

- Ensuring balanced structure of assets and liabilities in terms of maturities;
- Diversification of funding sources, focus on stable customer liabilities;
- Forming "liquidity cushion", which consists of highly liquid financial instruments with low level of credit risk;
- Stress-testing of liquidity risk and development of action plans in case of liquidity crisis;
- Projecting proceeds and payments, maintenance of payment position.

In order to control liquidity risk, the Group also calculates liquidity ratios on a daily basis in accordance with requirements of the Central Bank of Russia. The Group complied with all liquidity ratios requirements as of 31 December 2015.

Treasury receives information on financial assets and liabilities, and ensures an adequate portfolio of short-term liquid assets which primarily consists of short-term liquid trade securities, bank deposits and other interbank instruments in order to keep a sufficient level of liquidity within the Group.

Treasury controls daily liquidity position and carries out stress-testing based on different scenarios covering regular and more adverse market conditions on a regular basis.

The Group entered into a general loan agreement with the Bank of Russia to provide loans in the form of overdrafts with a limit of RUB 3,500,000 thousand secured by the collateral of securities (2015: RUB 3,500,000 thousand). As of 31 December 2016, in accordance with the agreement, trading securities and securities held to maturity in the amount of RUB 3,606,947 thousand and RUB 210,804 thousand, respectively, were blocked (2015: trading securities and securities held to maturity in the amount of RUB 657,593 thousand and RUB 2,084,154 thousand, respectively). As of 31 December 2016 and 31 December 2015, the overdraft was not used by the Group. See Notes 8, 12, 36.

The tables below show liabilities as of 31 December 2016 and 31 December 2015 by their remaining contractual maturities. The amounts disclosed in the maturity tables are the contractual undiscounted cash flows, including total loan commitments and financial guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position since these amounts are based on discounted cash flows.

29 Risk management (continued)

Liquidity risk (continued)

Financial derivative instruments are included in the tables at their payable/receivable contractual values, except when the Group assumes the derivatives position will be closed before maturity. In this case, derivatives are included on the basis of expected cash flows.

In cases when the amount payable is not fixed, the amount shown in the table is determined by the conditions existing as of the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The table below presents maturity analysis of financial instruments as of 31 December 2016:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to other banks	1,851,511	–	–	–	1,851,511
Amounts due to customers	14,708,459	8,176,068	15,057,372	11,244,232	49,186,131
Debt securities issued	93,798	1,399,668	180,596	45,328	1,719,390
Other financial liabilities	1,643	–	–	–	1,643
Subordinated Eurobonds issued	24,263	24,263	48,526	1,552,817	1,649,869
Total potential future payments for financial liabilities	**16,679,674**	**9,599,999**	**15,286,494**	**12,842,377**	**54,408,544**

The table below presents maturity analysis of financial instruments as of 31 December 2015:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to other banks	6,527,802	5,866,661	709,341	–	13,103,804
Amounts due to customers	13,496,393	12,626,872	10,194,787	10,139,033	46,457,085
Debt securities issued	1,180,237	355,734	484,782	1,336,284	3,357,037
Other financial liabilities	1,193	–	–	–	1,193
Subordinated Eurobonds issued	29,153	29,153	58,306	1,982,409	2,099,021
Total potential future payments for financial liabilities	**21,234,778**	**18,878,420**	**11,447,216**	**13,457,726**	**65,018,140**

As of 31 December 2016 and 31 December 2015, all credit-related contingencies are included in “On demand and less than 1 month” category.

Amounts due to customers are classified in the above analysis by contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

29 Risk management (continued)

Liquidity risk (continued)

The Group does not use the above non-discounted maturity analysis to manage liquidity. Instead of this, as of 31 December 2016, the Group controls expected maturities and expected liquidity gap, which are reflected in the table below:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	18,884,453	1,017,085	–	–	–	19,901,538
Obligatory reserve with the CBR	530,179	–	–	–	–	530,179
Trading securities	10,272,689	–	–	–	–	10,272,689
Amounts due from other banks	–	2,108,923	22,361	516,989	–	2,648,273
Loans and advances to customers	658,377	1,720,689	1,392,444	10,509,576	234,912	14,515,998
Finance lease receivables	3,950	–	16,948	–	–	20,898
Investment securities available for sale	–	–	–	12,134,211	957,714	13,091,925
Securities held to maturity	–	396,750	–	1,886,362	–	2,283,112
Other financial assets	111,781	12,100	–	–	–	123,881
Total financial assets	**30,461,429**	**5,255,547**	**1,431,753**	**25,047,138**	**1,192,626**	**63,388,493**
Liabilities						
Amounts due to other banks	1,851,213	–	–	–	–	1,851,213
Amounts due to customers	16,117,990	8,097,165	14,069,276	10,360,534	–	48,644,965
Debt securities issued	39,459	777,468	65,627	10,263	–	892,817
Other financial liabilities	1,643	–	–	–	–	1,643
Subordinated Eurobonds issued	–	–	–	–	1,212,854	1,212,854
Total financial liabilities	**18,010,305**	**8,874,633**	**14,134,903**	**10,370,797**	**1,212,854**	**52,603,492**
Net liquidity gap as of 31 December 2016	**12,451,124**	**(3,619,086)**	**(12,703,150)**	**14,676,341**	**(20,228)**	**10,785,001**
Cumulative liquidity gap as of 31 December 2016	**12,451,124**	**8,832,038**	**(3,871,112)**	**10,805,229**	**10,785,001**	

29 Risk management (continued)

Liquidity risk (continued)

As of 31 December 2015, the analysis by the expected maturities is as follows:

(in thousands of Russian rubles)	On demand and less than 1 month	1 to 6 months	6 to 12 months	12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	6,846,810	–	–	–	–	6,846,810
Obligatory reserve with the CBR	296,002	–	–	–	–	296,002
Trading securities	6,231,246	–	–	–	–	6,231,246
Amounts due from other banks	10,006,199	–	–	–	–	10,006,199
Loans and advances to customers	13,250,438	4,289,096	3,650,853	14,133,485	2,842,766	38,166,638
Finance lease receivables	24,771	24,492	6,572	11,833	–	67,668
Investment securities available for sale	1,340,616	–	–	–	1,196,282	2,536,898
Securities held to maturity	93,786	64,917	940,615	2,203,857	–	3,303,175
Other financial assets	1,193,872	–	–	–	–	1,193,872
Total financial assets	**39,283,740**	**4,378,505**	**4,598,040**	**16,349,175**	**4,039,048**	**68,648,508**
Liabilities						
Amounts due to other banks	6,521,843	5,851,411	679,357	–	–	13,052,611
Amounts due to customers	13,473,368	12,233,934	9,650,108	8,714,031	–	44,071,441
Debt securities issued	1,179,864	283,193	471,136	527,460	564,459	3,026,112
Other financial liabilities	1,193	–	–	–	–	1,193
Subordinated Eurobonds issued	–	–	–	–	1,452,835	1,452,835
Total financial liabilities	**21,176,268**	**18,368,538**	**10,800,601**	**9,241,491**	**2,017,294**	**61,604,192**
Net liquidity gap as of 31 December 2015	**18,107,472**	**(13,990,033)**	**(6,202,561)**	**7,107,684**	**2,021,754**	**7,044,316**
Cumulative liquidity gap as of 31 December 2015	**18,107,472**	**4,117,439**	**(2,085,122)**	**5,022,562**	**7,044,316**	**–**

Obligatory reserve with the CBR are classified as “On demand and less than 1 month” due to its monthly adjustment depending on the liabilities to be reserved.

In 2016 and 2015, the portion of the Group’s securities portfolio is classified as “On demand and less than 1 month”, as these securities are trading by their nature, and the management is convinced that this classification reflects the liquidity of securities correctly.

Eurobonds classified in loans to customers and amounts due from other banks were categorized as “On demand and less than 1 month”, as the Group may use this financial asset to raise funds during a short period of time.

Management believes that despite a substantial portion of amounts due to customers being on demand, the diversification of these deposits by number and type of depositors, and the past experience of the Group, indicates that these amounts provide a long-term and stable source of funding for the Group.

Management assumes the matching or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Group’s business. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability of activities, but can also increase the risk of losses.

29 Risk management (continued)

Liquidity risk (continued)

The Group thoroughly monitors the negative cumulative liquidity gap. The Group assesses risk attributable to its activities, sets limits on high-risk operations and analyzes actual costs against budget, which helps to control expenses.

The liquidity requirements to support calls under guarantees and 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 these commitments. The total outstanding contractual commitments to extend credit do not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded.

Interest rate risk

Interest rate risk is the risk of losses incurred due to unfavorable changes in interest rates on the financial assets, liabilities and off balance sheet items of the Group.

The Group is exposed to the interest rate risk as a result of its principal activity, that is placing funds at fixed interest rates, in amounts and for periods which differ from those of borrowings. Interest rate risk arises in the event of a sharp shift in interest rates or decrease in interest spread (gap), when the value of the Group's assets declines, and the cost of liabilities rises, and thus the margin decreases.

The interest rate risk management is aimed at mitigation of adverse impact of unfavorable changes in market interest rates on the Group's financial result by monitoring the mismatch in maturity of funds placed and borrowed at fixed rates, as well as by matching interest-sensitive assets and liabilities.

The Group manages interest rate risks of the bank portfolio using the following instruments:

- Interest risk assessment;
- Narrowing the gap between assets and liabilities by terms of revaluation of interest rates broken down by separate currencies;
- Mitigation of interest risk during development/modification of products.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Group is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Compliance risk

Compliance risk is the risk that the Group will incur losses due to non-compliance with the legislation, internal documentation, standards of self-regulating organizations (if such standards and rules are mandatory for the Group), as well as resulting from the imposed sanctions and (or) other enforcement actions taken by supervision bodies. The Internal Control Function monitors the compliance risk exposure based on laws and regulations and the Bank's internal documents, in accordance with the documents regulating the activities of the Internal Control Function, in line with the approved work plan or as part of separate assignments.

30 Capital management

The Group's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored using the daily reports outlining the calculation and the monthly reports signed by the Chairman of the Management Board and Chief Accountant of the Group. During 2016 and 2015, the Group complied with all externally imposed capital requirements.

The Group maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Group's capital is monitored using the ratios established by the CBR in supervising the Group.

30 Capital management (continued)

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to participants, return capital to participants or issue capital securities. No changes were made in the capital management objectives, policies and processes from the previous years.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAL. Capital adequacy ratios are calculated in accordance with RAL as ratios of core capital (N1.1), main capital (N1.2) and equity (capital) of a bank (N1.0) to risk-weighted assets. As of 31 December 2016 and 2015, the Bank's capital adequacy ratio on this basis was as follows:

	2016	**2015**
Core capital	8,114,520	6,650,679
Main capital	8,114,520	6,650,679
Additional capital	5,053,221	3,350,023
Total capital	**13,167,741**	**10,000,702**
Risk-weighted assets	**68,728,378**	**71,377,002**
N1.1, %	12.0	9.5
N1.2, %	12.0	9.5
N1.0, %	19.2	14.0

31 Commitments and contingencies

Operating environment

The Russian Federation displays certain characteristics of an emerging market. Russian tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks may negatively affect the Russian financial and corporate sector. Management determined allowances for loan impairment considering current economic situation and year-end outlook and used the "incurred loss" model required by the applicable accounting standards. According to these standards, impairment losses resulting from past events shall be recognized and impairment losses that may result from future events shall not be recognized irrespective of the likelihood of such events. See Note 4.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Russian economy is affected by dropping oil prices and sanctions imposed on Russia by a number of countries. ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal proceedings

From time to time and in the ordinary course of business, the Group is subject to legal actions. Based on its own assessment and recommendations of internal professional advisors, the Group's management believes that the related legal proceedings will not result in material losses for the Group, and, therefore, did not provide for such legal proceedings in its financial statements.

31 Commitments and contingencies (continued)

Taxation

Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are subject to changes that can occur frequently and, in some cases, at short notice (and may also apply retrospectively), which may lead to varying interpretations and selective and inconsistent application in practice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities at any time in the future. The tax authorities may take a more assertive position in their interpretation of legislation, and in performing tax reviews and assessing additional taxes. It is therefore possible that transactions and tax accounting methods that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and fines may be assessed.

Tax field reviews of the accuracy of tax calculation and payment in Russia, which are conducted by the tax authorities, may cover three calendar years immediately preceding the year in which the decision to perform the tax review was taken. Under certain conditions, reviews may cover earlier periods.

In accordance with the Russian transfer pricing legislation, the Russian tax authorities may adjust the prices of "controlled" transactions for taxation purposes and assess additional amounts of income tax and VAT in connection with such transactions, if their prices deviate from market prices for taxation purposes and if such deviations led to an underpayment of tax by a taxpayer. "Controlled" transactions include, in particular (under certain conditions), transactions with related parties (Russian and foreign) and certain cross-border transactions. Special transfer pricing rules apply to transactions involving securities and financial derivatives.

In 2016, the Group determined its tax liabilities arising from "controlled" transactions based on actual transaction prices.

Due to the uncertainty and lack of application of the current Russian transfer pricing legislation, it is impossible to guarantee that the Russian tax authorities will not attempt to challenge prices used by the Group in "controlled" transactions and to assess additional taxes if the Group is unable to prove that the "controlled" transactions were entered into on an arm's length basis.

Starting from 1 January 2015, the taxation rules for controlled foreign companies and the concepts of beneficial owner of income and tax residency of a foreign legal entities were introduced. Overall, the adoption of this law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or conduct transactions with foreign companies.

As of 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments

As of 31 December 2016 and 31 December 2015, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

The Group is confident that future net revenues and funding will be sufficient to cover these or any similar commitments.

Operating lease commitments

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

(in thousands of Russian rubles)	**2016**	**2015**
Less than 1 year	76,325	86,809
From 1 to 5 years	84,222	103,113
More than 5 years	126,152	–
Total operating lease commitments	**286,699**	**189,922**

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and 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.

31 Commitments and contingencies (continued)

Credit-related commitments (continued)

In 2016, the Group provided trade financing services for corporate customers. Data concerning guarantees and letters of credit issued relate to this type of activity.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to undrawn loan commitments, the Group is potentially exposed to loss in an amount equal to the total unused commitments if unused amounts should have been used. However, the likely amount of losses is less than the total amount of 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. As of 31 December 2016, unused limits on guarantees amounted to RUB 4,663,157 thousand (2015: RUB 488,208 thousand), and unused credit lines amounted to RUB 3,190,031 thousand (2015: RUB 936,110 thousand).

Guarantees and letters of credit comprise:

(in thousands of Russian rubles)	**2016**	**2015**
Guarantees issued	6,565,427	6,815,336
Import letters of credit issued	–	24,202
Less: provisions for guarantees and letters of credit	(478,890)	(68,381)
Total	**6,086,537**	**6,771,157**

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

As of 31 December 2016, irrevocable letters of credit were collateralized by term deposits in the amount of RUB 66,369 thousand (2015: RUB 113,190 thousand). See Note 18.

Guarantees and letters of credit are denominated in the following currencies:

(in thousands of Russian rubles)	**2016**	**2015**
RUB	6,047,522	6,747,218
USD	34,062	–
EUR	4,953	23,939
Total	**6,086,537**	**6,771,157**

32 Derivative financial instruments

Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The total fair values of derivative financial instruments can fluctuate significantly from time to time. The table below sets out fair values, at the reporting date, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short-term in nature.

	2016			**2015**		
(in thousands of Russian rubles)	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**
Forward transactions:						
- sale of corporate bonds denominated in rubles	500,000	12,100	–	–	–	–
- purchase of RUB against EUR	1,074,006	–	(1,339)	–	–	–
- purchase of RUB against USD	12,180	49	–	–	–	–
- purchase of EUR against RUB	4,897	–	(47)	148,359	–	(840)
- purchase of USD against EUR	274,202	836	–	224,700	–	(205)
Total derivative financial instruments	**1,865,285**	**12,985**	**(1,386)**	**373,059**	**–**	**(1,045)**

As of 31 December 2016, the Group does not expect to settle these forward contracts in cash on a net basis and therefore recognizes them in the consolidated statement of financial position as an asset at net fair value in the amount of RUB 12,985 thousand (2015: RUB 0 thousand) and a liability in the amount of RUB 1,386 thousand (2015: RUB 1,045 thousand) (See notes 16 and 19).

33 Fair values of financial instruments

(a) Fair values of financial instruments carried at amortized cost

Fair values of financial instruments carried at amortized cost are presented below:

	2016			2015		
(in thousands of Russian rubles)	**Carrying amount**	**Fair value**	**Unrecog-nized gain/(loss)**	**Carrying amount**	**Fair value**	**Unrecog-nized gain/(loss)**
Financial assets						
Cash and cash equivalents	**19,901,538**	**19,877,598**	**(23,940)**	**6,846,810**	**6,863,099**	**16,289**
- Cash on hand	598,427	598,427	–	825,877	825,877	–
Settlement accounts with financial institutions	218,186	218,186	–	171,249	171,249	–
- Cash balances with the CBR	1,738,852	1,738,852	–	1,485,969	1,485,969	–
- Correspondent accounts and overnight deposits	1,820,268	1,820,268	–	1,407,497	1,407,497	–
- Deposits with other banks with original maturities of less than three months	836,009	831,634	(4,375)	2,956,218	2,972,507	16,289
- Reverse repurchase agreements with credit institutions up to 90 days	14,689,796	14,670,231	(19,565)	–	–	–
Obligatory reserve with the CBR	**530,179**	**530,179**	–	**296,002**	**296,002**	–
Amounts due from other banks	**2,648,273**	**2,696,139**	**47,866**	**10,006,199**	**10,591,513**	**585,314**
- Eurobonds	2,625,911	2,674,338	48,427	10,006,199	10,591,513	585,314
- Promissory notes	22,362	21,801	(561)	–	–	–
Loans to customers	**14,515,998**	**14,839,814**	**323,816**	**38,166,638**	**37,396,074**	**(770,564)**
- Large businesses	3,071,017	3,066,303	(4,714)	18,653,377	18,207,547	(445,830)
- Medium businesses	9,028,072	9,405,600	377,528	9,345,154	9,338,959	(6,195)
- Small businesses	1,256,087	1,271,600	15,513	4,837,810	4,746,696	(91,114)
- Individuals	1,160,822	1,096,311	(64,511)	5,330,297	5,102,872	(227,425)
Finance lease	**20,898**	**20,898**	**–**	**67,668**	**67,668**	**–**
Investment securities held to maturity	**2,283,112**	**2,319,231**	**36,119**	**3,303,175**	**3,318,589**	**15,414**
- Federal loan bonds (OFZ)	2,283,112	2,319,231	36,119	3,303,175	3,318,589	15,414
Other financial assets	**123,881**	**123,881**	**–**	**1,193,872**	**1,193,872**	**–**
Receivables from the Deposit Insurance Agency	5,274	5,274	–	1,055,315	1,055,315	–
Credit and debit card receivables	90,987	90,987	–	123,901	123,901	–
Guarantee deposits	13,000	13,000	–	13,000	13,000	–
Derivative financial instruments	12,985	12,985	–	–	–	–
Other	1,635	1,635	–	1,656	1,656	–
Total financial assets carried at amortized cost	**40,023,879**	**40,407,740**	**383,861**	**59,880,364**	**59,726,817**	**(153,547)**

33 Fair value of financial instruments (continued)

(a) Fair values of financial instruments carried at amortized cost (continued)

	2016			2015		
(in thousands of Russian rubles)	**Carrying amount**	**Fair value**	**Unrecognized gain/(loss)**	**Carrying amount**	**Fair value**	**Unrecognized gain/(loss)**
Financial liabilities						
Amounts due to other banks	**1,851,213**	**1,850,401**	**812**	**13,052,611**	**13,062,706**	**(10,095)**
- Correspondent accounts and overnight deposits	285,331	285,331	–	1,023,652	1,023,652	–
- Deposits of other banks	1,565,882	1,565,070	812	2,628,660	2,638,350	(9,690)
- Repurchase agreements with the CBR	–	–	–	6,347,482	6,347,482	–
- Repurchase agreements with other banks	–	–	–	3,052,817	3,053,222	(405)
Amounts due to customers	**48,644,965**	**49,499,105**	**(854,140)**	**44,071,441**	**44,739,965**	**(668,524)**
- Current/settlement accounts of state and public organizations	67,078	67,078	–	95,509	95,509	–
- Term deposits of state and public organizations	1,000	1,000	–	1,050	1,050	–
- Current/settlement accounts of other legal entities	7,784,113	7,784,113	–	3,460,077	3,460,077	–
- Term deposits of other legal entities	6,722,793	6,812,953	(90,160)	10,938,853	10,984,762	(45,909)
- Current/demand accounts of individuals	3,168,280	3,168,280	–	2,054,003	2,054,003	–
- Term deposits of individuals	30,901,701	31,665,681	(763,980)	27,521,949	28,144,564	(622,615)
Other financial liabilities	**257**	**257**	**–**	**148**	**148**	**–**
- Credit and debit card payables	257	257	–	148	148	–
Debt securities issued	**892,817**	**905,774**	**(12,957)**	**3,026,112**	**3,150,892**	**(124,780)**
Subordinated Eurobonds issued	**1,212,854**	**1,212,854**	–	**1,452,835**	**1,452,674**	**161**
Total financial liabilities carried at amortized cost	**52,602,106**	**53,468,391**	**(866,285)**	**61,603,147**	**62,406,385**	**(803,238)**

33 Fair value of financial instruments (continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	2016			2015		
(in thousands of Russian rubles)	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial assets measured at fair value						
Trading securities	**6,434,532**	**3,838,157**	**–**	**3,416,314**	**2,027,416**	**–**
- Federal loan bonds (OFZ)	5,390,447	1,202,394	–	1,641,570	–	–
- Bonds of banks	–	407,800	–	821,074	811,969	–
- Corporate bonds	735,690	2,212,889	–	508,499	962,504	–
Bonds of state corporations	100,192	–	–	392,307	174,098	–
- Bonds of subjects of the Russian Federation	–	15,074	–	18,148	78,845	–
- Corporate shares	208,203	–	–	34,716	–	–
Receivables under repurchase agreements (trading securities)	**–**	**–**	**–**	**787,516**	**–**	**–**
- Federal loan bonds (OFZ)	–	–	–	787,516	–	–
Investment securities available for sale	**11,684,179**	**450,032**	**957,714**	**2**	**485,026**	**2,051,870**
- Corporate bonds	8,126,104	–	**–**	**–**	381,204	**–**
- Corporate shares	**–**	–	957,714	2	–	1,196,282
Bonds of Russian banks	2,596,318	450,032	–	–	103,822	855,588
Bonds of state corporations	961,757	**–**	**–**			
Other financial assets		**12,985**	**–**	**–**	**–**	**–**
- Derivative financial instruments (SWAP deals)	–	12,985	–	–	–	–
Total financial assets measured at fair value	**18,118,711**	**4,301,174**	**957,714**	**4,203,832**	**2,512,442**	**2,051,870**
Financial assets for which fair values are disclosed						
Cash and cash equivalents	19,045,964	–	831,634	3,890,592	–	2,972,507
Amounts due from credit institutions	–	–	2,696,139	–	–	10,591,513
Loans to customers	–	–	14,839,814	–	–	37,396,074
Investment securities held to maturity	736,252	1,582,979	–	3,318,589	–	–
Total financial assets for which fair values are disclosed	**19,782,216**	**1,582,979**	**18,367,587**	**7,209,181**	**–**	**50,960,094**
Financial liabilities at fair value						
Other financial liabilities	**–**	**1,386**	**–**	**–**	**1,045**	**–**
- Derivative financial instruments (SWAP deals)	–	1,386	–	–	1,045	–
Total financial liabilities measured at fair value	**–**	**1,386**	**–**	**–**	**1,045**	**–**
Financial liabilities for which fair values are disclosed						
Amounts due to the CBR and other banks	–	–	1,850,401	–	–	13,062,706
Amounts due to customers	–	–	49,499,105	–	–	44,739,965
Debt securities issued	–	–	905,774	–	–	3,150,892
Subordinated Eurobonds issued	–	1,212,854	–	–	1,452,674	–
Total financial liabilities for which fair values are disclosed	**–**	**1,212,854**	**52,255,280**	**–**	**1,452,674**	**60,953,563**

Management uses professional judgments to allocate financial instruments to a particular level of the fair value hierarchy. If observable inputs requiring significant adjustments are used in fair value measurement, this measurement is included in Level 2. Significant of used inputs are assessed for aggregated fair value measurement.

In 2016, the Group transferred trading securities in the amount of RUB 1,884,778 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in market activity. These securities represent bank and corporate bonds, and OFZ bonds.

33 Fair value of financial instruments (continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value (continued)

In 2016, the Group transferred trading securities in the amount of RUB 289,598 thousand from Level 2 to Level 1 of the fair value hierarchy due to a rise in market activity. These securities represent corporate bonds, bonds of state corporations and corporate shares.

In 2015, the Group transferred trading securities in the amount of RUB 557,215 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in market activity. These securities represent bank and corporate bonds.

In 2015, the Group transferred trading securities in the amount of RUB 611,730 thousand from Level 2 to Level 1 of the fair value hierarchy due to a rise in market activity. These securities represent bank and corporate bonds and bonds of the subjects of the Russian Federation.

(c) Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

(in thousands of Russian rubles)	As of 1 January 2016	Gains/(losses) recognized in other compre-hensive income	Purchases	Sales	As of 31 December 2016
Assets					
Investment securities available for sale	2,051,870	(263,492)	–	(830,664)	957,714

(in thousands of Russian rubles)	As of 1 January 2015	Gains/(losses) recognized in other compre-hensive income	Purchases	Sales	At 31 December 2015
Assets					
Investment securities available for sale	1,008,528	193,282	855,588	(5,528)	2,051,870

Losses recorded in profit or loss on investment securities available for sale, as presented in the tables above, are recorded in the consolidated statement of comprehensive income within losses net of gains from sale of investment securities available for sale and within losses net of gains from foreign currency translation.

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

As of 31 December 2016	Carrying amount	Valuation technique	Unobservable inputs	Range (weighted average)
Investment securities available for sale				
Equity securities	957,714	P/E	Value of underlying asset	Not applicable

As of 31 December 2015	Carrying amount	Valuation technique	Unobservable inputs	Range (weighted average)
Investment securities available for sale				
Equity securities	1,196,284	P/E	Value of underlying asset	Not applicable
Debt securities	855,586	Probability of default	Value of underlying asset	Not applicable

33 Fair value of financial instruments (continued)

(c) Movements in Level 3 assets and liabilities at fair value (continued)

The following table shows the quantitative information about sensitivity of the fair value measurement categorized within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

	As of 31 December 2016		As of 31 December 2015	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets				
Investment securities available for sale	957,714	(61,142)	2,051,870	(70,671)

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- For debt securities, the Group adjusted the probability of default and loss given default assumptions by increasing the probability of default by 10 percentage points, which is a range that is consistent with the Group's internal credit risk ratings for the counterparties.
- The Group adjusted average P/E ratio by decreasing it by 5 percentage points, which, in the Group's opinion, is within a range of possible alternative change of this ratio for other companies of the same industry bearing similar risks.

(d) Methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by the active quoted market price of a financial instrument. Where quoted market prices are not available, the Group uses valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows discounted at current interest rates for new instruments with similar credit risk and maturity.

The use of discount rates is subject to instrument currency and maturity and credit risk of the counterparty. The analysis of these rates is presented below:

	2016	2015
Amounts due from other banks		
Term deposits with other banks	1.1%-7.8% per annum	2.8% per annum
Loans and advances to customers		
Large businesses	5.9%-12.3% per annum	5.9%-13.8% per annum
Medium businesses	6.1%-12.3% per annum	9.4%-16.4% per annum
Small businesses	7.1%-15.5% per annum	8.4%-16.4% per annum
Loans to individuals	8.3%-22.0% per annum	8.3%-24.2% per annum
Amounts due to other banks		
Correspondent accounts and overnight deposits of other banks	0.0% per annum	0.0% per annum
Deposits of other banks	1.1%-9.8% per annum	0.3%-11.4% per annum
Repurchase agreements with other banks	–	0.3%-10.5% per annum
Amounts due to customers		
Term deposits of legal entities	0.1%-9.6% per annum	0.2%-10.8% per annum
Term deposits of individuals	0.2%-7.6% per annum	1.1%-9.3% per annum

34 Related party disclosures

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 and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

For the purpose of related party disclosures, participants comprise entities or individuals owning, directly or indirectly, an interest in the share capital that gives them significant influence over the Group.

Other related parties comprise close relatives of individuals and key management personnel who can have influence on or can be influenced by such individuals in relation to transactions with the Group.

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

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	285,849	–
Investment securities available for sale	–	–	957,714	–
Loans and advances to customers (contractual interest rate: 14.0%-17.9%)	–	2,573	–	37
Other non-financial assets	–	90	3,595	–
Amounts due to other banks (contractual interest rate: 0.2%-9.5%)	–	–	1,705,312	–
Amounts due to customers (contractual interest rate: 0.0%-12.0%)	2,110,447	258,964	151,551	84,446
Debt securities issued	19,912	–	–	–
Subordinated Eurobonds issued (contractual interest rate: 8.0%)	–	–	1,212,854	–
Other non-financial liabilities	6,920	17,304	97	29

Income and expenses for 2016 arising from transactions with related parties are disclosed below:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income	2,765	2,394	1,438	2,443
Interest expense	(83,622)	(16,572)	(37,886)	(14,428)
Allowance for loan impairment	–	(22)	–	(5)
Gains less losses / (losses net of gains) from foreign currencies	62	179	(26,176)	67
Gains less losses from foreign currency translation	243,992	42,257	392,394	13,036
Fee and commission income	1,327	687	42,176	211
Fee and commission expense	–	–	(950)	–
Other operating income	9,533	33	785	1,186
Administrative and other operating expenses	(39,938)	(362,299)	(10,090)	(6,503)

Other rights and obligations under transactions with related parties as of 31 December 2016 were as follows:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Guarantees issued by the Group	–	–	7,574	–
Guarantees received by the Group at the end of the year	3,500	16,650	15,147	15,486
Other contingencies	2,000	72,906	–	14

34 Related party disclosures (continued)

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

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Amounts lent to related parties during the year	223,116	25,183	620,156	3,000
Amounts repaid by related parties during the year	223,119	45,131	907,656	609
Loans to non-related customers	–	347	–	2,391

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

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	359,074	–
Investment securities available for sale	–	–	1,196,284	–
Loans and advances to customers (contractual interest rate: 10.5%-18.0%)	80,214	23,047	–	18
Other non-financial assets	–	259	181	–
Amounts due to other banks (contractual interest rate: 0.0%-10.0%)	–	–	2,719,531	–
Amounts due to customers (contractual interest rate: 0.0%-15.0%)	1,712,731	271,608	635,083	39,287
Debt securities issued	89,631	–	–	–
Subordinated Eurobonds issued (contractual interest rate: 8.0%)	–	–	1,452,835	–
Other non-financial liabilities	7,000	28,213	48	36

Income and expenses for 2015 arising from transactions with related parties are disclosed below:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income	–	4,994	12,076	52
Interest expense	(118,793)	(24,515)	(87,316)	(2,384)
Reversal of allowance / (allowance) for loan impairment	–	90	5,260	10
Gains less losses from foreign currencies	190	267	49,300	66
Losses net of gains from foreign currency translation	(124,081)	(44,955)	(331,513)	(2,166)
Gains less losses from trading securities	–	–	807	–
Losses net of gains from derivative financial instruments	–	–	(30,026)	–
Fee and commission income	1,944	662	3,302	77
Fee and commission expense	–	–	(515)	–
Other operating income	–	19	1,945	–
Administrative and other operating expenses	(40,122)	(303,125)	(12,405)	(5,289)

34 Related party disclosures (continued)

Other rights and obligations under transactions with related parties as of 31 December 2015 were as follows:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Guarantees issued by the Group	–	–	93,131	–
Guarantees received by the Group at the end of the year	270,645	52,223	315,147	16,186
Other contingencies	1,997	11,178	–	148

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

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Amounts lent to related parties during the year	1,640	24,355	601,146	–
Amounts repaid by related parties during the year	1,637	52,856	570,230	778

Compensations to key management are presented below:

(in thousands of Russian rubles)	**2016**	**2015**
Short-term payments:		
- Salaries	317,522	287,663
- Short-term bonuses	55,827	7,410
Total	**373,349**	**295,073**

Short-term bonuses are payable in full within twelve months after the period when management provided the respective services.

35 Business combinations

On 1 April 2016, Expobank LLC purchased from the Royal Bank of Scotland Group a 100% interest in its Russian subsidiary the Royal Bank of Scotland CJSC (General License No. 2594 issued by the Bank of Russia) ("RBS CJSC"). Starting from April 2016, the Bank obtained control over financing and operating activities of the subsidiary.

Name	**Nature of business**	**Country of registration**
Subsidiary		
RBS CJSC	Commercial bank	Russian Federation

Key activities of the acquired bank include debt financing services to corporate customers, financial institutions, public sector and governmental authorities, as well as transaction services and risk management services. RBS CJSC was acquired mainly to implement the strategy for the consolidation of bank assets.

35 Business combinations (continued)

For the purposes of the financial statements, the fair value of assets and liabilities of RBS CJSC was determined at the acquisition date based on the report prepared by independent appraisers. The acquired assets and liabilities and gain from bargain purchase (negative goodwill) arising from acquisition of RBS CJSC are as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	2,470,824
Obligatory reserve with the CBR	135,642
Amounts due from credit institutions	10,141,160
Loans to customers	34,647
Property and equipment	1,244,048
Other assets	1,401,064
Total assets	**15,427,385**
Liabilities	
Amounts due to banks	564,231
Amounts due to customers	10,420,350
Deferred tax liability	179,010
Other liabilities	30,213
Total liabilities	**11,193,804**
Total identifiable net assets	**4,233,581**
Transferred consideration	2,458,343
Excess of the fair value of acquiree's net assets over investment cost	**(1,775,238)**

On 16 May 2016, the general meeting of the participants decided to reorganize Expobank LLC by merging it with the Royal Bank of Scotland CJSC.

In May 2016, following the decision of the Sole shareholder, the Royal Bank of Scotland CJSC was renamed into Expobank Finance JSC.

On 1 August 2016, Expobank LLC was reorganized by merging with Expobank Finance JSC.

Analysis of cash flows on acquisition

Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,470,824
Cash paid on acquisition (included in cash flows from investing activities)	(2,458,343)
Net cash inflow	**12,481**

35 Business combinations (continued)

Analysis of cash flows on acquisition (continued)

On 26 February 2015, Expobank LLC purchased 100% of voting shares in MAK-Bank LLC, following the approval given by the appropriate regulatory authorities. Starting from February 2015, the Bank obtained control over financing and operating activities of the subsidiary.

Name	Nature of business	Country of registration
Subsidiary		
MAK-Bank LLC	Commercial bank	Russian Federation

Key activities of the acquired bank include retail, mortgage and corporate lending, dealing with securities, raising deposits from legal entities and individuals, issuance and servicing of plastic cards, and maintenance of legal entities' settlements. MAK-Bank LLC was acquired mainly to implement the strategy for the consolidation of bank assets.

For the purposes of the financial statements, the fair value of MAK-Bank's assets and liabilities was determined at the acquisition date based on the report prepared by independent appraisers. The acquired assets and liabilities and gain from bargain purchase (negative goodwill) arising from acquisition of MAK-Bank LLC are as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	613,517
Obligatory reserve with the CBR	90,772
Amounts due from credit institutions	12,702
Trading securities	3,351
Loans to customers	1,242,803
Property and equipment	932,886
Other assets	60,077
Total assets	**2,956,108**
Liabilities	
Amounts due to banks	10,532
Amounts due to customers	1,993,212
Deferred tax liability	45,113
Other liabilities	31,131
Total liabilities	**2,079,988**
Total identifiable net assets	**876,120**
Transferred consideration	200,917
Derecognition of previous relations	200,000
Less: fair value of the subsidiary's identifiable net assets	(876,120)
Excess of the fair value of acquiree's net assets over investment cost	**(475,203)**

Derecognition of previous relations in the amount of RUB 200,000 thousand is represented by cash transferred to the subsidiary as a loan. The fair value of the financial liability matches its carrying amount.

On 20 March 2015, the general meeting of the participants decided to reorganize Expobank LLC by merging it with MAK-Bank LLC. On 22 June 2015, MAK-Bank LLC was merged with the Bank.

The fair value of loans to customers amounted to RUB 1,242,803 thousand. The contractual amount of loans to customers before allowance for impairment totaled RUB 1,089,692 thousand. The best estimate of the contractual cash flows not expected to be collected was RUB 198,264 thousand at the acquisition date.

36 Transferred financial assets not derecognized and assets held or pledged as collateral

As of 31 December 2016, the Group has no transferred assets not derecognized or assets held or pledged as collateral.

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

		2015	
(in thousands of Russian rubles)	**Notes**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liabilities**
Trading securities	8, 17	787,516	738,955
Securities held to maturity	12, 17	328,882	311,361
Amounts due from other banks	9, 17	2,018,293	1,758,672
Loans to customers	10, 17	6,904,108	6,591,311
Total		**10,038,799**	**9,400,299**

As of 31 December 2015 liabilities under direct repurchase agreements in the amount of RUB 1,116,398 thousand represent securities which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were completed in due time before 11 January 2016.

As of 31 December 2016, trading securities in the amount of RUB 3,606,947 thousand and securities held to maturity in the amount of RUB 210,804 thousand (2015: trading securities and securities held to maturity in the amount of RUB 657,593 thousand and RUB 2,084,154 thousand, respectively) were blocked in accordance with the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand (2015: RUB 3,500,000 thousand). As of 31 December 2016 and 31 December 2015, the overdraft was not used by the Group.

In addition, obligatory reserves with the CBR in the amount of RUB 530,179 thousand (2015: RUB 296,002 thousand) represent non-interest bearing deposits with the CBR which are not available to finance the Group's day-to-day operations.

37 Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the consolidated statement of financial position:

2016	**Net amount of financial instruments recognized in the statement of financial position**	**Financial instruments not offset in the statement of financial position**	**Net amount**
Financial liabilities			
Other financial instruments	(1,386)	–	(1,386)
Total	**(1,386)**	**–**	**(1,386)**

2015	**Net amount of financial instruments recognized in the statement of financial position**	**Financial instruments not offset in the statement of financial position**	**Net amount**
Financial assets			
Reverse repurchase agreements	80,211	(80,211)	–
Total	**80,211**	**(80,211)**	**–**
Financial liabilities			
Repurchase agreements	(9,400,299)	9,400,299	–
Other financial instruments	(1,045)	–	(1,045)
Total	**(9,401,344)**	**9,400,299**	**(1,045)**

38 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Financial risk management" for the Group's contractual undiscounted repayment obligations.

	As of 31 December 2016			As of 31 December 2015		
	Amounts expected to be settled/recovered			Amounts expected to be settled/recovered		
(in thousands of Russian rubles)	Within 12 months after the reporting period	More than 12 months after the reporting period	Total	Within 12 months after the reporting period	More than 12 months after the reporting period	Total
Assets						
Cash and cash equivalents	19,901,538	–	19,901,538	6,846,810	–	6,846,810
Obligatory reserve with the CBR	530,179	–	530,179	296,002	–	296,002
Trading securities	10,272,689	–	10,272,689	6,231,246	–	6,231,246
Amounts due from other banks	2,131,284	516,989	2,648,273	10,006,199	–	10,006,199
Loans and advances to customers	3,771,510	10,744,488	14,515,998	21,190,387	16,976,251	38,166,638
Finance lease receivables	20,898	–	20,898	55,835	11,833	67,668
Investment securities available for sale	13,091,925	–	13,091,925	2,536,898	–	2,536,898
Securities held to maturity	396,750	1,886,362	2,283,112	1,099,318	2,203,857	3,303,175
Prepayment for current income tax liabilities	–	–	–	266,495	–	266,495
Intangible assets	–	35,631	35,631	–	35,290	35,290
Investment property	–	698,000	698,000	–	45,960	45,960
Property and equipment	–	1,440,353	1,440,353	–	2,128,160	2,128,160
Deferred tax assets	254,549	–	254,549	–	–	–
Other financial assets	123,881	–	123,881	1,193,872	–	1,193,872
Other non-financial assets	82,132	–	82,132	215,450	–	215,450
Total assets	**50,577,335**	**15,321,823**	**65,899,158**	**49,938,512**	**21,401,351**	**71,339,863**
Liabilities						
Amounts due to other banks	1,851,213	–	1,851,213	13,052,611	–	13,052,611
Amounts due to customers	38,284,431	10,360,534	48,644,965	35,357,410	8,714,031	44,071,441
Debt securities issued	882,554	10,263	892,817	1,934,193	1,091,919	3,026,112
Income tax liabilities	346,933	–	346,933	–	–	–
Deferred tax liability	–	–	–	–	435,113	435,113
Other financial liabilities	1,643	–	1,643	1,193	–	1,193
Other non-financial liabilities	960,601	–	960,601	314,301	–	314,301
Subordinated Eurobonds issued	–	1,212,854	1,212,854	–	1,452,835	1,452,835
Total liabilities	**42,327,375**	**11,583,651**	**53,911,026**	**50,659,708**	**11,693,898**	**62,353,606**

39 Events after the reporting period

On 3 March 2017, the Analytical Credit Rating Agency (ACRA) assigned the BBB+(RU) credit rating with a stable outlook to Expobank LLC.