Consolidated financial statements of *PJSC Sovcombank* for the year ended 31 December 2016

with independent auditor's report

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Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the Shareholders and Supervisory Board of
PJSC Sovcombank

Report on the audit of the consolidated financial statements

We have audited the accompanying consolidated financial statements of Public Joint-stock Company Sovcombank (the "Bank") and its subsidiaries ("the banking group where the Bank is the parent credit institution"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, as well as a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PJSC Sovcombank and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for 2016 in accordance with International Financial Reporting Standards.

Report on the findings from the work performed in accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

Management of PJSC Sovcombank is responsible for the compliance of the banking group where the Bank is the parent credit institution with the mandatory prudential ratios (hereinafter, the "obligatory ratios") established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia"), and for the conformity of internal control and organisation of the risk management systems of the banking group where the Bank is the parent credit institution with the requirements set forth by the Bank of Russia in respect of such systems.

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

1) Whether the banking group where the Bank is the parent credit institution complied as at 1 January 2017 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and the organisation of the risk management systems of the banking group where the Bank is the parent credit institution conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - subordination of the risk management departments;
   - the existence of methodologies, approved by the Bank's respective authorised bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - oversight performed by the Supervisory Board and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the banking group where the Bank is the parent credit institution with the obligatory ratios established by the Bank of Russia

In September 2015, State Corporation Deposit Insurance Agency engaged the Bank as an investor to participate in the bankruptcy prevention of JSC Express-Volga Bank. As at 31 December 2016, the Bank owned 100% of shares in JSC Express-Volga Bank; therefore, the Bank included it in the banking group where the Bank is the parent credit institution.

We found that as of 1 January 2017 the banking group where the Bank is the parent credit institution did not comply with N21 ratio "Maximum risk per one borrower or group of related borrowers of the banking group" because JSC Express-Volga Bank did notcomply with N6 ratio "Maximum risk per one borrower or a group of related borrowers". The values of other obligatory ratios of the banking group where the Bank is the parent credit institution as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the banking group where the Bank is the parent credit institution, except for those procedures we considered necessary to express our opinion on the fair presentation of the consolidated financial statements of the Bank and its subsidiaries.

Conformity of internal control and the organisation of the risk management systems of the banking group where the Bank is the parent credit institution with the requirements set forth by the Bank of Russia in respect of such systems

- We found that internal control and risk management within the banking group where the Bank is the parent credit institution are maintained not at the group level, but at the level of individual participants of the banking group.

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

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

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of credit, market, operational and liquidity risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies, as well as recommendations on their improvement.

- We found that, as at 31 December 2016, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2016, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division, and the measures suggested to address the findings.

The procedures pertaining to the internal control and organisation of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organisation of the 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.

A.V. Sorokin
Partner
Ernst & Young LLC

12 April 2017

Details of the audited entity

Name: PJSC Sovcombank
Record made in the State Register of Legal Entities on 1 September 2014, State Registration Number 1144400000425.
Address: Russia 156000, Kostroma, prospect Tekstilshchikov, 46.

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 Self-regulated organisation of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations, main registration number 11603050648.

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 RUB MM	2015 RUB MM
Interest income	7	63,477	45,030
Interest expense	7	(34,831)	(26,726)
Obligatory deposit insurance		(901)	(427)
Net interest income		**27,745**	**17,877**
Allowance for loan impairment	12	(4,687)	(9,021)
Net interest income after allowance for loan impairment		**23,058**	**8,856**
Fee and commission income	8	13,921	10,304
Fee and commission expense	9	(1,146)	(577)
Net fee and commission income		**12,775**	**9,727**
Net gain on financial instruments at fair value through profit or loss		17,002	16,791
Net foreign exchange (loss)/gain	10	(417)	221
Other impairment and provisions	15	(1,362)	(1,377)
Share of profit in car leasing joint venture		145	99
Other operating income	11	5,140	250
Operating income		**56,341**	**34,567**
Revaluation of buildings and investment property		6	5
Personnel expenses	13	(7,955)	(5,567)
Other general and administrative expenses	14	(6,662)	(5,071)
Profit before income tax expense		**41,730**	**23,934**
Income tax expense	16	(8,043)	(4,617)
Profit for the year		**33,687**	**19,317**
Profit for the year attributable to:			
- shareholders of the Bank		33,638	19,154
- non-controlling interests		49	163
Other comprehensive income			
Revaluation reserve for available-for-sale assets		1,588	–
Revaluation of buildings, net of tax		63	4
Foreign currency translation reserve		(80)	–
Other comprehensive income, net of tax		**1,571**	**4**
Total comprehensive income		**35,258**	**19,321**
Comprehensive income attributable to:			
- shareholders of the Bank		35,209	19,158
- non-controlling interests		49	163

Approved: 12 April 2017

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with notes 1 to 45 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2016

	Notes	2016 RUB MM	2015 RUB MM
Assets			
Cash and cash equivalents	17	21,465	52,528
Mandatory cash balances with the CBR		3,017	897
Placements with banks:			
- held by the Group	18	384	21,842
- pledged under sale and repurchase agreements	18	–	1,899
Financial instruments at fair value through profit or loss:			
- held by the Group	19	91,592	36,854
- pledged under sale and repurchase agreements	27	193,626	169,953
Available-for-sale investment securities	21	7,086	2,631
Loans to customers:			
- held by the Group	20	211,931	158,889
- pledged under sale and repurchase agreements	27	26,489	16,320
Investments in associates	44	802	1,208
Investments in car leasing joint venture		456	486
Assets held for sale		134	–
Investment property	23	288	77
Property and equipment and intangible assets	24	4,963	2,626
Goodwill	41	728	364
Deferred tax asset	33	496	2
Other assets	25	1,872	1,366
Total assets		**565,329**	**467,942**
Liabilities			
Due to the CBR	27	42,618	186,055
Due to banks	28	145,196	78,369
Due to customers	26	276,467	145,420
Debt securities issued	29	8,774	3,061
Other borrowed funds	30	15,691	14,225
Subordinated debt	31	1,484	6,958
Deferred tax liability	33	4,861	2,751
Non-controlling interest		525	525
Other liabilities	32	5,797	3,257
Total liabilities		**501,413**	**440,621**
Equity			
Share capital	34	1,716	1,906
Treasury shares	34	–	(190)
Other capital contributions		2,382	2,382
Revaluation reserve for available-for-sale assets		1,588	–
Foreign currency translation reserve		(80)	–
Perpetual subordinated debt		5,770	–
Revaluation reserve for buildings		89	26
Retained earnings		52,329	22,980
Total equity attributable to shareholders of the Bank		**63,794**	**27,104**
Non-controlling interests		122	217
Total equity		**63,916**	**27,321**
Total equity and liabilities		**565,329**	**467,942**

Approved: 12 April 2017

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Andrey Osnos
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with notes 1 to 45 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

	Notes	2016 RUB MM	2015 RUB MM
Cash flows from operating activities			
Interest, fees and commission received		77,397	57,064
Interest, fees and commission paid		(28,213)	(27,119)
Net realised gain on financial instruments at fair value through profit or loss		6,331	13,090
Net realised foreign exchange gain/(loss)		10,506	(18,927)
Other operating income received		722	278
Personnel and other general and administrative expenses paid		(14,544)	(10,162)
Cash flows from operating activities		**52,199**	**14,224**
(Increase)/decrease in operating assets			
Mandatory cash balances with the CBR		(1,420)	193
Placements with banks and the CBR		8,304	4,201
Financial instruments at fair value through profit or loss		(50,114)	(135,324)
Loans to customers		(10,434)	(66,677)
Other assets		177	(132)
Increase/(decrease) in operating liabilities			
Due to customers		52,659	24,855
Due to the CBR and banks		(87,333)	147,867
Promissory notes issued		(636)	(2,768)
Other liabilities		(84)	(954)
Net cash flows from operating activities before income tax		**(36,682)**	**(14,515)**
Income tax paid		(6,197)	(488)
Cash flows from operating activities		**(42,879)**	**(15,003)**
Cash flows from investing activities			
Long-term loans issued		–	(49,850)
Acquisition of subsidiaries, net of cash received	40	14,505	(5,443)
Sale of interests in subsidiaries and associates, net of cash disposed		–	315
Acquisition of property and equipment and intangible assets		(583)	(171)
Proceeds from disposal of property and equipment and intangible assets		4	63
Acquisition of available-for-sale financial assets		(2,150)	(1,762)
Proceeds from disposal of available-for-sale financial assets		–	3,568
Cash flows from investing activities		**11,776**	**(53,280)**
Cash flows from financing activities			
Other borrowed funds received		–	94,700
Proceeds from bonds issued		8,188	846
Redemption of bonds issued		(2,035)	–
Subordinated debt received		2,000	–
Subordinated debt repaid		(1,952)	(816)
Distributions to shareholders		(4,613)	(3,656)
Cash flows from financing activities		**1,588**	**91,074**
Net increase/(decrease) in cash and cash equivalents		**(29,515)**	**22,791**
Effect of exchange rate changes on cash and cash equivalents		(1,548)	4,311
Cash and cash equivalents at the beginning of the year		52,528	25,426
Cash and cash equivalents at the end of the year	17	**21,465**	**52,528**

The consolidated statement of cash flows is to be read in conjunction with notes 1 to 45 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Attributable to shareholders of the Bank										
	Share capital RUB MM	***Treasury shares RUB MM***	***Other capital contributions RUB MM***	***Revaluation reserve for property RUB MM***	***Revaluation reserve for available-for-sale assets RUB MM***	***Perpetual subordinated debt RUB MM***	***Foreign currency translation reserve RUB MM***	***Retained earnings (accumulated losses) RUB MM***	***Total net assets RUB MM***	***Non-controlling interests RUB MM***	***Total equity RUB MM***
Balance as at 1 January 2015	**1,906**	**(190)**	**2,382**	**22**	**–**	**–**	**–**	**7,482**	**11,602**	**–**	**11,602**
Total comprehensive income	–	–	–	4	–	–	–	19,154	**19,158**	163	**19,321**
Distributions to shareholders	–	–	–	–	–	–	–	(3,656)	**(3,656)**	–	**(3,656)**
Changes in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	**–**	54	**54**
Balance as at 31 December 2015	**1,906**	**(190)**	**2,382**	**26**	**–**	**–**	**–**	**22,980**	**27,104**	**217**	**27,321**
Balance as at 1 January 2016	**1,906**	**(190)**	**2,382**	**26**	**–**	**–**	**–**	**22,980**	**27,104**	**217**	**27,321**
Total comprehensive income	–	–	–	63	–	–	(80)	33,638	**33,621**	49	**33,670**
Revaluation of available-for-sale assets, net of tax	–	–	–	–	1,588	–	–	–	**1,588**	–	**1,588**
Perpetual subordinated debt received (Note 31)	–	–	–	–	–	6,109	–	–	**6,109**	–	**6,109**
Currency translation differences on perpetual subordinated debt	–	–	–	–	–	(339)	–	339	**–**	–	**–**
Payments on perpetual subordinated debt (Note 34)	–	–	–	–	–	–	–	(258)	**(258)**	–	**(258)**
Tax effect on perpetual subordinated debt	–	–	–	–	–	–	–	(15)	**(15)**	–	**(15)**
Distributions to shareholders (Note 34)	–	–	–	–	–	–	–	(4,355)	**(4,355)**	(144)	**(4,499)**
Net result from treasury share operations (Note 34)	(190)	190	–	–	–	–	–	–	**–**	–	**–**
Balance as at 31 December 2016	**1,716**	**–**	**2,382**	**89**	**1,588**	**5,770**	**(80)**	**52,329**	**63,794**	**122**	**63,916**

The consolidated statement of changes in equity is to be read in conjunction with notes 1 to 45 to, and forming an integral part of, the consolidated financial statements.

1. Background

Principal activities

These consolidated financial statements include the financial statements of Public Joint-Stock Company Sovcombank (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). A list of principal consolidated subsidiaries included in these consolidated financial statements of Sovcombank Group is disclosed in Note 43.

Sovcombank, the parent company of the Group, was originally established in the city of Kostroma as a limited liability company in 1990. In September 2014, the Bank changed its legal form from a limited liability company to an open joint-stock company. In December 2014, the Bank changed its legal form from an open joint-stock company to a public joint-stock company pursuant to regulatory changes in Russia. These reorganisations had no effect on the Bank's principal activities or its shareholder structure.

The Bank's registered legal address is 46, prospect Tekstilshchikov, Kostroma, 156000, Russia. The Bank operates under general banking license No. 963 issued by the Central Bank of the Russian Federation (the "CBR") on 27 November 1990. The Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker and a dealer issued by the Federal Securities Market Commission (the "FSMC") on 27 January 2009. The Bank is regulated and supervised by the CBR, the regulator for banking and financial markets in the Russian Federation. The Bank has been a member of the deposit insurance system managed by the State Corporation Deposit Insurance Agency ("DIA") since 15 September 2005.

The Group's principal business is corporate and retail banking. This activity includes, but is not limited to, taking deposits; issuing corporate loans and bank guarantees denominated in both Russian Rubles and in freely convertible currencies; providing financial services to customers; foreign exchange operations; and trading securities and derivative financial instruments. The Group operates primarily in the Russian Federation.

The Bank operates in 971 cities, towns and villages across 74 constituent entities of the Russian Federation. As at 31 December 2016, the Bank had 8,703 employees (31 December 2015: 6,355 employees).

Shareholders

The Group's ownership was as follows:

	Ownership, % 31 December 2016	*Ownership, % 31 December 2015*
SovCo Capital Partners N.V.	100.00%	100.00%

As at 31 December 2016 and 2015, the Group was not under the control of any single ultimate beneficiary owner (Note 34).

SovCo Capital Partners N.V., a legal entity incorporated in the Netherlands, has been the legal successor of SovCo Capital Partners B.V. since 30 August 2016. SovCo Capital Partners B.V. was the shareholder of the Group from 2003. SovCo Capital Partners N.V. is controlled by a group of Russian businessmen, including key members of Sovcombank Management. The complete list of SovCo Capital Partners N.V.'s ultimate beneficiaries is disclosed on the Bank's page on the CBR's web-site (http://www.cbr.ru/credit/coinfo.asp?id=340000004).

The Chairman of the Bank's Supervisory Board is Mikhail Kuchment. The Supervisory Board includes representatives of the Bank's shareholders, as well as an independent director.

Operating environment

Most of the Group's operations take place in the Russian Federation. Russia continues to carry out economic reforms and develop its legal, tax and regulatory frameworks. The future stability of the Russian economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government of Russian Federation, as well as global and domestic prices of energy resources.

Changes in global energy and raw material prices, and, to a limited extent, by sanctions imposed on Russia by a number of countries had significant impact on the Russian economy. Ruble interest rates have remained high for the most borrowers. The combination of the above may negatively affect the Group's future financial position, results of operations and business prospects. Management believes that it takes all appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("Russian Accounting Standards", or "RAS"). These consolidated financial statements are based on those RAS accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

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

These consolidated financial statements are presented in millions ("MM") of Russian Rubles ("RUB") unless otherwise indicated.

3. Significant accounting policies

Changes in accounting policies

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

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

In addition, 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 *Investments in Associates and Joint Ventures* 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.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Annual Improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered 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. This amendment must be applied prospectively.

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures

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 the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must 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.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one-half of the voting rights, or otherwise has the power to exercise control over their operations, are consolidated. 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 unrealised gains on transactions between group companies are eliminated in full; unrealised 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.

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

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, and the cumulative translation differences recorded in equity; it recognises 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 recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at 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 at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised 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 is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should 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 recognised 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.

3. Significant accounting policies (continued)

Business combinations (continued)

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 net assets attributable to shareholders.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates and joint ventures

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognised at cost, including goodwill. Goodwill arising as a result of an investment in associates or joint ventures is not tested for impairment separately. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Group's share of net assets of the associate or joint venture. The Group's share of its associates' or joint ventures' profits or losses is recognised in the consolidated statement of profit or loss, and its share of movements in reserves is recognised in other comprehensive income.

If the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

The Group classifies cash, nostro accounts with the CBR and other banks, placements with banks and other credit institutions with an original maturity less than 90 days as Cash and cash equivalents. The minimum mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its use by the Group.

Financial instruments

Classification

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

- ► Acquired or incurred principally for the purpose of selling or repurchasing in the near term
- ► Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- ► Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or
- ► Upon initial recognition, designated as at fair value through profit or loss.

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

- ► The assets or liabilities are managed and evaluated on a fair value basis
- ► The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- ► The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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

- Intends to sell immediately or in the near term
- Upon initial recognition designates as at fair value through profit or loss
- Upon initial recognition designates as available-for-sale or
- May not recover substantially all of its initial investment in, for reasons other than credit deterioration.

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

- The Group upon initial recognition designates as at fair value through profit or loss
- The Group designates as available-for-sale or
- Meet the definition of loans and receivables.

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

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

Recognition

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

Measurement

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

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

- Loans and receivables which are measured at amortised cost using the effective interest method
- Held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the yield to maturity using the effective interest method.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the financial asset or liability.

3. Significant accounting policies (continued)

Financial instruments (continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in active markets at the reporting date without any deduction for transaction costs. Active market means a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

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

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

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

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired or when the Group has transferred substantially all the risks and rewards of ownership of the financial asset. Any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to assets deemed to be uncollectible.

Sale and repurchase and reverse sale and repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within Due to banks or Current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

3. Significant accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments (including futures, forwards, swaps and options) in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currency dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Offsetting

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

Property and equipment and intangible assets

Owned assets

Items of property and equipment and intangible assets are carried at cost, less accumulated depreciation and accumulated impairment losses, except for buildings that are recorded at revalued amounts, as described below.

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

Leased assets

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

Revaluation

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

Depreciation

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

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

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

3. Significant accounting policies (continued)

Investment property

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

Assets repossessed by the Group following litigation to recover amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realisable value.

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term in amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

3. Significant accounting policies (continued)

Leases (continued)

iv. Operating – Group as lessor

The Group presents assets that it provides under operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of lease income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Promissory notes

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

Borrowings

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include current accounts and deposits from customers, due to banks, promissory notes, and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables for impairments on a regular basis using a conservative approach. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include a default or delinquency by a borrower, a breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, a deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in a borrower group's finances or economic conditions that correlate with defaults in the borrower group.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, collateral type and past-due status.

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

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

3. Significant accounting policies (continued)

Impairment (continued)

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when Management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is recovered later, the recovery is credited to the consolidated statement of profit or loss.

Financial assets carried at cost

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

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a ‘Day 1’ profit) in the consolidated statement of profit or loss. In cases where data used is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

Available-for-sale assets

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

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

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

Non-financial assets

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

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

Renegotiated loans

In certain circumstances, the Group renegotiates the original terms of a customer’s loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. This may involve extending the payment arrangements and the agreement of new loan conditions.

3. Significant accounting policies (continued)

Impairment (continued)

The accounting treatment of this restructuring is as follows:

- If the currency of the loan has changed, the previous loan is derecognised and the new loan is recognised in the statement of financial position
- If the loan restructuring is not caused by financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below
- If the loan restructuring is due to financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the loan terms have been renegotiated, the loan is no longer considered as past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Credit-related commitments

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

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

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

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantee.

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

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

3. Significant accounting policies (continued)

Taxation

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

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

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

Russia also has various operating taxes that are applied to the Group's business activities. These taxes are included as a part of other operating expenses.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services that it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised once the corresponding criteria have been met.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

3. Significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2016 and 31 December 2015, were 60.6569 Rubles and 72.8827 Rubles to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

Segment reporting

The Group determines operating segments based on its organisational structure. Operating segments are based on the aggregated management accounts provided to the Supervisory Board. The Group's segment reporting is based on the following operating segments: Retail banking, and Corporate and investment banking.

As assets and liabilities of the Group are primarily concentrated in the Russian Federation and the largest share of its revenues and profits is earned from operations in the Russian Federation, the Group does not apply any geographical segmentation of its business.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will 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 from 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 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising 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*).

3. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Revenue under IFRS 15 will need to be recognised 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.

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 recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised 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 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 financial 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 has 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.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Group.

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, Management makes the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Estimation uncertainty

In the process of applying the Group's accounting policies, Management used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant uses of judgments and estimates are as follows:

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 inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Determining an active market for debt securities

The Group applies certain criteria for assessing whether an active market for the debt securities exists. Liquidity of a security (the number and volume of trades) and its bid-ask spread form the basis for the judgement on whether to reclassify the security from Financial instruments at fair value through profit or loss to Loans to customers or Placements with banks, depending on the legal status of the given counterparty.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairments. Based on experience, the Group uses its judgment and significant accumulated knowledge to estimate the impairment losses in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on observable data indicating if there has been an adverse change in the payment status of borrowers in a group, or if there are national or local economic conditions that correlate with credit defaults in the group. Management uses estimates based on historical loss statistics for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. Based on experience, the Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to assess the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2016, the carrying amount of goodwill was RUB 728 MM (31 December 2015: RUB 364 MM). The details are provided in Note 41.

Revaluation of buildings and investment property

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed annually, on the basis of reports by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in the valuation of property of a similar location and category, in order to avoid significant differences between the fair value of the revalued asset and its carrying amount.

Deferred tax

When determining the amount of deferred tax assets which may be recognised in the financial statements, Management assesses the probability that the deferred tax asset will be used. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be used against it. When conducting such an assessment Management takes into account regulatory restrictions on the use of deferred tax assets, future expected taxable profit, as well as tax planning strategies.

Based on historical income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, Management of the Group considers it possible to use the deferred tax asset recognised in the Bank's financial statements.

5. Segment reporting

Starting from 2015, the Group reports two major operating segments for the management purposes:

- *Retail banking*

  Providing to individuals mostly in small towns a wide range of banking services, including mortgages, car and consumer loans, overdrafts, credit cards, retail deposits and current accounts, as well as insurance products.

- *Corporate and investment banking ("CIB")*

  Lending and providing investment banking services to corporate clients; providing letters of guarantees to small and medium-sized companies; trading securities and engaging in investment activities (M&A).

	2016			
	Retail banking RUB MM	***CIB RUB MM***	***Adjustments and eliminations RUB MM***	***Total RUB MM***
Revenue				
External customers				
Interest income	36,125	43,839	(16,487)	63,477
Fee and commission income	11,161	2,760	–	13,921
Net gains from trading securities	–	17,002	–	17,002
Other income	95	5,196	–	5,291
Total revenue	**47,381**	**68,797**	**(16,487)**	**99,691**
Interest expense	(20,207)	(31,111)	16,487	(34,831)
Fee and commission expense	(456)	(690)	–	(1,146)
Allowance for loan impairment	(3,646)	(1,041)	–	(4,687)
Personnel expenses	(5,865)	(2,090)	–	(7,955)
Depreciation	(508)	(8)	–	(516)
Other impairment charges and provisions	–	(1,362)	–	(1,362)
Net losses from foreign currencies and foreign exchange derivatives	(4)	(413)	–	(417)
Other segment expenses	(6,941)	(106)	–	(7,047)
Segment results	**9,754**	**31,976**	**–**	**41,730**
Income tax expense				**(8,043)**
Profit for the year				**33,687**
Segment assets	96,680	468,649	–	**565,329**
Segment liabilities	236,991	264,422	–	**501,413**
Other segment information				
Investments in associates	–	802	–	**802**

5. Segment reporting (continued)

	2015			
	Retail banking RUB MM	***CIB RUB MM***	***Adjustments and eliminations RUB MM***	***Total RUB MM***
Revenue				
External customers				
Interest income	24,427	24,490	(3,887)	45,030
Fee and commission income	8,652	1,652	–	10,304
Net gains from trading securities	–	16,791	–	16,791
Net gains from foreign currencies and foreign exchange derivatives	11	210	–	221
Other income	104	250	–	354
Total revenue	**33,194**	**43,393**	**(3,887)**	**72,700**
Interest expense	(12,586)	(18,027)	3,887	(26,726)
Fee and commission expense	(331)	(246)	–	(577)
Allowance for loan impairment	(8,214)	(807)	–	(9,021)
Personnel expenses	(4,736)	(831)	–	(5,567)
Depreciation	(456)	–	–	(456)
Other impairment charges and provisions	(48)	(1,329)	–	(1,377)
Other segment expenses	(4,966)	(76)	–	(5,042)
Segment results	**1,857**	**22,077**	**–**	**23,934**
Income tax expense				**(4,617)**
Profit for the year				**19,317**
	68,892	399,050	–	**467,942**
Segment assets	129,827	310,794	–	**440,621**
Segment liabilities				
Other segment information				
Investments in associates	–	1,208	–	1,208

6. Reclassification

As at 1 October 2014, the Group reclassified certain financial assets (bonds) that met the definition of loans and receivables from “Financial instruments at fair value through profit or loss” to “Loans to customers and Placements with banks”. Due to both low market liquidity of and infrequent market price quotes for these financial assets, as well as low credit risk of the bond issuers, the Group decided to hold these bonds for the foreseeable future or until maturity. The effective interest rate of reclassified financial instruments as at 1 October 2014 ranged from 5.14% to 29.13%. The present value of estimated cash flows the Group expects to receive equals to the fair value of the reclassified financial assets as at 1 October 2014.

Summary on the financial instruments reclassified in 2014 is presented in the table below:

	2016			2015		
	Loans to customers RUB MM	***Placements with banks RUB MM***	***Total RUB MM***	***Loans to customers RUB MM***	***Placements with banks RUB MM***	***Total RUB MM***
Carrying amount as at 31 December	2,756	64	**2,820**	16,363	2,460	**18,823**
Fair value as at 31 December	2,749	48	**2,797**	16,239	2,439	**18,678**
Fair value gain/(loss) that would be recognised on the financial instruments reclassified in 2014 for the period were the reclassification not been made	81	4	**85**	1,123	163	**1,286**
Interest income recognised in profit or loss for the year	839	108	**947**	2,538	1,164	**3,702**
Reversal of allowance/(allowance) recognised after reclassification	97	8	**105**	102	36	**138**

The carrying amounts of Loans to customers and Placements with banks are presented net of the allowance created.

6. Reclassification (continued)

As at 1 October 2016, the Group reclassified certain financial assets (bonds) that met the definition of loans and receivables from “Financial instruments at fair value through profit or loss” to “Loans to customers and Placements with banks”. Due to both low market liquidity of and infrequent market price quotes for these financial assets, as well as low credit risk of the bond issuers, the Group decided to hold these bonds for the foreseeable future or until maturity. The effective interest rate of reclassified financial instruments as at 1 October 2016 ranged from 10.97% to 14.49%. The present value of estimated cash flows the Group expects to receive equals to the fair value of the reclassified financial assets as at 1 October 2016.

Financial instruments reclassified in 2016 are presented in the table below:

	2016		
	Loans to customers RUB MM	***Placements with banks RUB MM***	***Total RUB MM***
Carrying amount at 31 December	35,962	–	**35,962**
Fair value at 31 December	37,030	–	**37,030**
Fair value gain/(loss) recognised up to the date of reclassification	530	–	**530**
Fair value gain/(loss) that would be recognised on the instruments reclassified in 2016 for the period were the reclassification not been made	461	–	**461**
Interest income recognised in profit or loss for the year	1,187	–	**1,187**
Reversal of allowance/(allowance) recognised after reclassification	(452)	–	**(452)**

The carrying amounts of Loans to customers and Placements with banks are presented net of the allowance created.

7. Net interest income

	2016 RUB MM	***2015 RUB MM***
Interest income		
Financial instruments at fair value through profit or loss	22,616	10,734
Loans to individuals	19,792	20,780
Loans to corporate customers	14,937	7,191
Placements with banks and financial institutions	6,132	6,325
	63,477	**45,030**
Interest expense		
Current accounts and deposits from customers	(21,984)	(13,563)
Deposits and balances from banks	(9,377)	(11,401)
Other borrowed funds	(2,295)	(528)
Debt securities issued	(608)	(444)
Subordinated debt	(567)	(790)
	(34,831)	**(26,726)**
Obligatory deposit insurance	**(901)**	**(427)**
Net interest income	**27,745**	**17,877**

Interest income earned on “Placements with banks and financial institutions” mainly relates to the interest received from foreign currency swap transactions concluded through the Moscow Exchange.

Interest expense on “Other borrowed funds” mainly relates to the interest expense on the loan provided to Sovcombank by the DIA for the financial rehabilitation of “Express-Volga Bank” JSC in September 2015.

8. Fee and commission income

	2016 RUB MM	2015 RUB MM
Financial protection program membership fees	6,768	5,732
Credit card fee and commission	3,868	1,771
Commission for issuing guarantees	1,260	1,067
Settlement operations	562	163
Commission for issuing securities	536	149
Agent fee from pension funds	254	378
Agent fee from insurance companies	234	913
Commission for lending	124	–
Commission for cash withdrawals	76	69
Commission for currency exchange	26	20
Other	213	42
	13,921	**10,304**

9. Fee and commission expense

	2016 RUB MM	2015 RUB MM
Credit card fee and commission	(457)	(332)
Agent services	(292)	(9)
Depository services	(169)	(101)
Settlement operations	(123)	(43)
Interest expense on subordinated loan issued by the DIA	(63)	(43)
Other	(42)	(49)
	(1,146)	**(577)**

"Interest expense on the subordinated loan issued by the DIA" relates to the subordinated loan of RUB 6,273 MM received by Sovcombank from the DIA in 2015 (Note 31). Because this subordinated loan is an off-balance sheet item and is not recorded in the Bank's consolidated statement of financial position, the related interest expense cannot be included into the section "Interest expense" of the profit and loss statement.

10. Net foreign exchange (loss)/gain

	2016 RUB MM	2015 RUB MM
Dealing	11,134	(19,701)
Translation differences	(11,551)	19,922
	(417)	**221**

"Dealing" represents a gain or loss from FX spot contracts which the Group enters with the market participants through the Moscow Exchange in order to manage Group's open currency positions in order to comply with the CBR regulatory requirements.

"Translation differences" represent a gain or a loss from revaluation of accounts denominated in foreign currencies and mainly relate to "Dealing" operations.

11. Other operating income

	2016 RUB MM	2015 RUB MM
Bargain purchase gain (Note 40)	2,321	–
Gain from settlement of pre-existing relationship (Note 40)	2,306	–
Disposal of foreclosed property	128	46
Penalties received	95	57
Disposal of fixed assets	54	42
Income from operating sublease	14	10
Other	222	95
	5,140	**250**

11. Other operating income (continued)

"Bargain purchase gain" relates to the Group's participation in the financial rehabilitation of "Express-Volga Bank" JSC and acquisition of "Garanti Bank – Moscow" JSC (Note 40).

"Gain from settlement of pre-existing relationship" relates to the change in the fair value of the loan provided on 23 September 2015 by Sovcombank to "Express-Volga Bank" JSC with a fixed interest rate for ten years as a part of financial rehabilitation of "Express-Volga Bank" JSC. The change in the fair value of the loan was due to a decrease in market interest rates during the period from 23 September 2015 to 14 February 2016, the date when Sovcombank formally took control over "Express-Volga Bank" JSC (Note 40).

12. Allowance for loan impairment

	2016 RUB MM	*2015 RUB MM*
Allowance for loans to individuals (Note 20)	(3,677)	(8,469)
Allowance for loans to corporate customers (Note 20)	(1,010)	(552)
	(4,687)	**(9,021)**

13. Personnel expenses

	2016 RUB MM	*2015 RUB MM*
Employee benefits, including bonuses	(6,384)	(4,411)
Payroll related taxes	(1,571)	(1,156)
	(7,955)	**(5,567)**

14. Other general and administrative expenses

	2016 RUB MM	*2015 RUB MM*
Rent	(1,492)	(1,274)
Advertising and marketing	(969)	(812)
Professional and cash collection services	(854)	(784)
Inventory and materials	(517)	(200)
Depreciation and amortisation (Note 24)	(516)	(456)
Fixed assets maintenance	(476)	(241)
Telecommunication services and post expenses	(441)	(337)
IT support expenses	(362)	(247)
Transport and business trips	(309)	(208)
Security	(175)	(151)
Taxes other than income tax	(123)	(56)
Property insurance	(51)	(46)
Other	(377)	(259)
	(6,662)	**(5,071)**

"Inventory and materials" expenses include purchases of computers, office equipment and furniture, other inventories and materials with a price of RUB 100,000 or below individually.

In 2016, the increase in expenses in the majority of line items is the result of the geographic expansion and increase in density of the Group's retail business, as well as the result of Group's acquisition of banks and companies (Note 40) whose expenses were consolidated in the Group's financial statements in 2016. In addition, the Group upgraded its IT infrastructure, equipment and renovated its retail operating offices in 2016.

15. Other impairment and provisions

	2016 RUB MM	2015 RUB MM
Commitments and contingencies (Note 22)	(508)	(202)
Litigation (Note 22)	(210)	(18)
Impairment of investments in associates (Note 44)	(325)	(331)
Goodwill impairment (Note 41)	(229)	(605)
Other assets (Note 22)	(67)	(199)
Repossessed assets	(30)	11
Placements with banks (Note 18)	7	43
Impairment of assets held for sale	–	(76)
	(1,362)	**(1,377)**

"Commitments and contingencies" provision mainly relates to the credit risk of the portfolio of bank guarantees issued to facilitate State tender procedures and procurement.

RUB 116 MM of the RUB 210 MM "Litigation" provision in 2016 relate to the portfolio of bank guarantees issued to facilitate State tender procedures and procurement.

As at 31 December 2016, the gross amount of off-balance portfolio of bank guarantees related to State tender procedures and procurement was RUB 71,812 MM (as at 31 December 2015: RUB 27,025 MM) (Note 35).

16. Income tax expense

	2016 RUB MM	2015 RUB MM
Current income tax	(6,409)	(608)
Origination of temporary differences (Note 33)	(1,634)	(4,009)
	(8,043)	**(4,617)**

Deferred tax for items charged or credited to other comprehensive income during the year was as follows:

	2016 RUB MM	2015 RUB MM
Revaluation reserve for securities available for sale	(397)	–
Revaluation of buildings	(16)	(1)
Income tax charged to other comprehensive income (Note 33)	**(413)**	**(1)**

Russian legal entities have to file individual corporate income tax returns with the tax authorities. The income tax rate for legal entities was 20% for 2016 and 2015 financial years. In 2016 and 2015, the income tax rate on interest income from state and mortgage-backed bonds was 15%. The income tax rate on interest income from municipal bonds was 9%. Dividends are taxed at the corporate income tax rate of 9%, which may be reduced to 0% subject to certain criteria.

Reconciliation of effective income tax rate

	2016 RUB MM	2015 RUB MM
Profit before tax	**41,730**	**23,934**
Income tax expense at the applicable tax rate	**(8,346)**	**(4,787)**
Tax exempt income	31	21
Effect of non-deductible expenses	(160)	(46)
Effect from income on state securities taxed at different rates	248	177
Other	184	18
	(8,043)	**(4,617)**

17. Cash and cash equivalents

	2016 RUB MM	*2015 RUB MM*
Nostro accounts with Russian banks and other financial institutions	9,023	16,228
Due from the CBR	6,787	9,921
Cash on hand	5,458	5,135
Nostro accounts with OECD banks	189	1,014
Short-term placements and reverse REPO deals maturing in less than 90 days with Russian banks	8	20,230
	21,465	**52,528**

"Short-term placements and reverse REPO deals maturing in less than 90 days with Russian banks" in 2015 primarily include amounts due from "Express-Volga Bank" JSC.

18. Placements with banks

	2016 RUB MM	*2015 RUB MM*
Term deposits with banks	321	14,230
Bonds of Russian banks held by the Group	64	567
Reverse repurchase agreements	–	7,053
Bonds of Russian banks pledged under sale and repurchase agreements	–	1,899
Total placements with banks	**385**	**23,749**
Less allowance for impairment	(1)	(8)
Placements with banks, net	**384**	**23,741**

"Term deposits with banks" and "Reverse repurchase agreements" in 2015 primarily include amounts due from "Express-Volga Bank" JSC.

The Group created an allowance for the impairment of investments in "Bonds of Russian banks held by the Group" that the Group reclassified into "Placements with banks" (Note 6). The decrease in the impairment allowance mainly relates to redemptions of these bonds in 2016.

19. Financial instruments at fair value through profit or loss

	2016 RUB MM	*2015 RUB MM*
Held by the Group		
Corporate bonds and Eurobonds	51,685	28,433
Bonds of companies with State participation	28,368	2,552
Government and municipal bonds	7,111	4,247
Derivative financial instruments	3,610	–
Corporate shares	818	1,622
Total financial instruments at fair value through profit or loss held by the Group	**91,592**	**36,854**
Pledged under sale and repurchase agreements		
Corporate bonds and Eurobonds	96,536	102,656
Bonds of companies with state participation	50,128	32,480
Government and municipal bonds	46,962	34,246
Corporate shares	–	470
Shares of companies with state participation	–	101
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**193,626**	**169,953**
Total financial instruments at fair value through profit or loss	**285,218**	**206,807**

19. Financial instruments at fair value through profit or loss (continued)

Securities at fair value through profit or loss

Securities at fair value through profit or loss by industry as at 31 December 2016 and 2015 are presented in the table below:

	2016		*2015*	
	RUB MM	*%*	*RUB MM*	*%*
Russian banks including banks with State participation	55,223	19.6%	27,622	13.4%
State and municipal	54,073	19.2%	38,494	18.6%
Metallurgy	33,190	11.8%	29,050	14.1%
Petrochemical	32,923	11.7%	21,794	10.5%
Transport and infrastructure	27,079	9.6%	21,576	10.4%
Mining	13,616	4.8%	14,743	7.1%
Telecommunications	13,451	4.8%	9,560	4.6%
Leasing	13,133	4.7%	9,944	4.8%
Diversified holdings and other finance	9,654	3.4%	4,725	2.3%
Services	8,800	3.1%	4,597	2.2%
Manufacturing	7,151	2.5%	5,904	2.9%
Chemical industry	6,931	2.5%	16,550	8.0%
Construction and development	4,936	1.8%	–	0.0%
Trading	1,196	0.4%	1,896	0.9%
Other	252	0.1%	352	0.2%
	281,608	**100.00%**	**206,807**	**100.00%**

Securities at fair value through profit or loss by long-term issuer credit rating assigned by international rating agencies (S&P, Fitch or Moody's) are presented in the table below:

	2016 *RUB MM*	*2015* *RUB MM*
Securities at fair value through profit or loss		
Issuers with credit rating from BBB+ to BBB-	83,919	43,394
Issuers with credit rating from BB+ to BB-	179,677	137,335
Issuers with credit rating from B+ to B-	11,954	21,434
Unrated issuers	6,058	4,644
Total securities at fair value through profit or loss	**281,608**	**206,807**

As at 31 December 2016, maturities of these securities were within the following range: January 2017 – June 2043 (31 December 2015: February 2016 – September 2045), interest rates ranged from 3.72% to 11.0% for USD-denominated debt securities, were 3.37% for EUR-denominated debt securities, were 7.49% for GBP-denominated debt securities and ranged from 6.2% to 15.0% for RUB-denominated debt securities (31 December 2015: from 3.15% to 12.5% for USD-denominated debt securities, from 3.37% to 4.0% for EUR-denominated debt securities, 7.49% for GBP-denominated debt securities, and from 2.5% to 18.75% for RUB-denominated debt securities).

As at 31 December 2016, the share of the largest issuer (a financial institution) in the Group's overall portfolio of securities at fair value through profit or loss was 7.73% (31 December 2015: 4.61%). Maturities of bonds of this issuer ranged from February 2017 to September 2032 (31 December 2015: from September 2017 to April 2021) and the interest rate ranged from 4.22% to 13.25% (31 December 2015: from 5.0% to 13.6%).

As at 31 December 2016, securities of the portfolio of financial instruments at fair value through profit or loss and those included into "Loans to customers" with a total carrying value of RUB 14,307 MM (31 December 2015: RUB 10,949 MM) represent a collateral placed with Moscow Exchange for the Group's Lombard loans and overnight transactions with the CBR.

According to IFRS 12, corporate Eurobonds shall be treated as interests in unconsolidated structured entities. The maximum total investment in such bonds equals the carrying amount of the corporate Eurobonds.

All financial instruments at fair value through profit or loss are in custody of "National Settlement Depositary" JSC at all times.

19. Financial instruments at fair value through profit or loss (continued)

Derivative financial instruments

The Group manages interest and currency risks by a wide range of means including derivative financial instruments ("swaps").

On 8 December 2015, in accordance with the Master agreement on derivative transactions in the financial markets, Sovcombank entered into a currency and interest rate swap transaction with a major Russian bank. The maturity date of this currency and interest rate swap is 12 December 2022. In accordance with the agreement, Sovcombank exchanges RUB 3,455 MM for USD 50 MM. Sovcombank pays interest of 7.5% p.a. on USD 50 MM and receives interest of 14.5% p.a. on RUB 3,455 MM. As at 31 December 2015, the fair value of this instrument was negative RUB 138 MM and it was recorded as a part of "Other liabilities" in the consolidated statement of financial position. The profit for the period from 8 December 2015 to 31 December 2015, which includes the revaluation of the currency and interest swap agreement, foreign exchange and translation differences, was RUB 51 MM, and it was recorded in "Net foreign exchange gain" in the consolidated statement of comprehensive income. As at 31 December 2016, the fair value of this instrument was positive RUB 982 MM and it was recorded as a part of "Derivative financial instruments" in the consolidated statement of financial position.

In November 2016, the Bank entered into three interest rate swap agreements with two bulge bracket international banks and a major Russian bank for a total of USD 1.1 BN maturing in November 2023. In accordance with the agreements, the Bank pays interest with fixed interest rates ranging from 1.485% to 1.495% and receives interest with a floating rate of 3mLIBOR.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2016			*2015*		
	Notional amount RUB MM	*Fair value*		*Notional amount RUB MM*	*Fair value*	
		Asset RUB MM	*Liability RUB MM*		*Asset RUB MM*	*Liability RUB MM*
Currency interest rate contracts						
Swaps – foreign contracts	36,394	1,436	–	–	–	–
Swaps – domestic contracts	33,361	2,174	–	–	–	–
Total derivative assets/liabilities	**69,755**	**3,610**	**–**	**–**	**–**	**–**

The "Notional amount" is recorded on a gross basis and represents the total amount of the derivative's underlying assets. Changes in fair value of the derivative instruments are estimated using a relevant reference rate or an index. The "Notional amount" indicates the total volume of transactions outstanding at the year end and is not indicative of the credit risk.

20. Loans to customers

	2016 RUB MM	*2015 RUB MM*
Loans to individuals		
Consumer loans	54,613	58,343
Car loans	21,475	–
Credit cards	6,719	7,423
Mortgages	3,528	2,250
Total loans to individuals	**86,335**	**68,016**
Loans to corporate customers		
Loans to constituent entities of the Russian Federation and municipal institutions	70,057	47,732
Loans to corporate entities	46,158	50,632
Loans to small entities and other loans to customers	4,412	2,285
Bonds of companies with State participation (Note 6)	26,587	–
Corporate bonds (Note 6)	10,386	4,324
State and municipal bonds (Note 6)	2,212	12,149
Total loans to corporate customers	**159,812**	**117,122**
Gross loans to customers	**246,147**	**185,138**
Less: allowance for loan impairment	(7,727)	(9,929)
Loans to customers, net	**238,420**	**175,209**

20. Loans to customers (continued)

As at 31 December 2016, the carrying amount of loans to the ten largest borrowers was RUB 39,383 MM representing 16.0% of the gross loan portfolio (7.0% of the Group's total assets). As at 31 December 2015, the carrying amount of loans to the ten largest borrowers was RUB 45,357 MM representing 24.6% of the gross loan portfolio (9.7% of the Group's total assets). As at 31 December 2016, the Group created an allowance for the impairment of loans issued to the ten largest borrowers of RUB 269 MM (31 December 2015: RUB 260 MM).

As at 31 December 2016, "Loans to customers" include bonds of companies with the State participation, State and municipal bonds, and corporate bonds. Some of these bonds (totalling RUB 19,688 MM) were pledged under the sale and repurchase agreements with the CBR and some (totalling RUB 6,801 MM) were pledged under sale and repurchase agreements with other banks (31 December 2015: RUB 16,320 MM of state and municipal bonds and corporate bonds were pledged under sale and repurchase agreements with the CBR). The details are presented in Note 27.

All bonds of companies with State participation, corporate bonds and State and municipal bonds within "Loans to customers" line item are in custody of "National Settlement Depository" JSC at all times.

Car loan portfolio was acquired by the Bank as a part of the acquisition of "Metcombank" JSC in October 2016 (Note 40).

Industry analysis of loans to corporate customers and corporate bonds

Loans to corporate customers were issued to companies and corporate bonds were issued by issuers of the following industries:

	2016 RUB MM	***2015 RUB MM***
Construction and development	10,012	9,544
Leasing	8,750	3,942
Energy	6,285	14,557
Metallurgy	6,066	7,298
Diversified holdings and other finance	6,020	1,567
Petrochemical	4,800	4,821
Manufacturing	4,265	4,216
Transport and infrastructure	2,800	7,437
Services	1,953	–
Agriculture and food processing	1,829	–
Telecommunications	1,300	–
Trading	–	1,531
Other	2,464	43
	56,544	**54,956**

20. Loans to customers (continued)

Allowance for impairment of loans to customers

Changes in the allowance for loan impairment for the years ended 31 December 2016 and 2015 were as follows:

	Loans to corporate customers, state and municipal bonds, bonds of companies with state participation and corporate bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgages*	*Car loans*	*Total*
As at 1 January 2016	**(496)**	**(60)**	**(7,680)**	**(1,147)**	**(239)**	**(307)**	**–**	**(9,929)**
Reversal/(charge) for the year	(801)	(87)	(2,889)	(721)	(122)	(136)	69	**(4,687)**
Reversal of amounts previously written off	–	(42)	–	–	–	–	(69)	**(111)**
Loans written off as uncollectible	154	–	5,721	1,039	–	86	–	**7,000**
As at 31 December 2016	**(1,143)**	**(189)**	**(4,848)**	**(829)**	**(361)**	**(357)**	**–**	**(7,727)**
Individual impairment	(209)	–	–	–	–	–	–	**(209)**
Collective impairment	(934)	(189)	(4,848)	(829)	(361)	(357)	–	**(7,518)**
	(1,143)	**(189)**	**(4,848)**	**(829)**	**(361)**	**(357)**	**–**	**(7,727)**
Total loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,043**	–	–	–	–	–	–	**1,043**

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgages*	*Total*
As at 1 January 2015	**(313)**	**(16)**	**(9,092)**	**(1,614)**	**–**	**(45)**	**(11,080)**
Reversal/(charge) for the year	(238)	(75)	(6,981)	(1,233)	(239)	(255)	**(9,021)**
Reversal of amounts previously written off	–	(8)	–	–	–	(17)	**(25)**
Loans written off as uncollectible	55	39	8,393	1,700	–	10	**10,197**
As at 31 December 2015	**(496)**	**(60)**	**(7,680)**	**(1,147)**	**(239)**	**(307)**	**(9,929)**
Individual impairment	(54)	–	–	–	–	–	**(54)**
Collective impairment	(442)	(60)	(7,680)	(1,147)	(239)	(307)	**(9,875)**
	(496)	**(60)**	**(7,680)**	**(1,147)**	**(239)**	**(307)**	**(9,929)**
Total loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**223**	**–**	**–**	**–**	**–**	**–**	**223**

Interest income accrued on individually impaired loans for the year ended 31 December 2016 was RUB 30 MM (year ended 31 December 2015: RUB 6 MM).

20. Loans to customers (continued)

Analysis of collateral

The breakdown of loans to customers (net of impairment) by type of collateral as at 31 December 2016 was as follows:

	Loans to corporate customers, state and municipal bonds, bonds of companies with state participation and corporate bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgages*	*Car loans*	*Total*
Real estate	5,689	1,381	406	–	–	3,168	12	**10,656**
Motor vehicles	1,722	321	4,265	–	–	–	21,158	**27,466**
Goods and materials	2,403	141	526	–	–	–	–	**3,070**
Securities and equity investments	2,720	182	–	–	–	–	–	**2,902**
Other collateral	980	899	3	–	–	–	31	**1,913**
No collateral	70,686	1,299	44,565	5,890	69,696	3	274	**192,413**
Total loans to customers	**84,200**	**4,223**	**49,765**	**5,890**	**69,696**	**3,171**	**21,475**	**238,420**

Loans to customers (net of impairment) by type of collateral as at 31 December 2015 were as follows:

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgages*	*Total*
Real estate	3,649	863	–	–	–	1,939	**6,451**
Motor vehicles	333	20	–	–	–	–	**353**
Goods and materials	–	28	–	–	–	–	**28**
Securities and equity investments	2,466	228	–	–	–	–	**2,694**
Other collateral	–	–	–	–	–	1	**1**
No collateral	60,161	1,086	50,663	6,276	47,493	3	**165,682**
Total loans to customers	**66,609**	**2,225**	**50,663**	**6,276**	**47,493**	**1,943**	**175,209**

As at 31 December 2016 and 2015, the loans secured by “Other collateral” were secured by guarantees issued by third parties.

The values shown in the tables above represent the carrying amount of the loans (net of impairment), and do not necessarily represent the fair value of the collateral.

21. Available-for-sale investment securities

As at 31 December 2016 and 31 December 2015, the Group’s investments classified as available for sale consisted of equity instruments of Russian credit institutions, as well as Russian and foreign companies:

	31 December 2016 RUB MM	*31 December 2015 RUB MM*	*Ownership interest as at 31 December 2016 %*	*Ownership interest as at 31 December 2015 %*
Credit institutions	4,888	1,883	19.54%	14.98%
Companies				
Investments in shares	1,111	111	3.70% to 10.00%	3.70%
Investments in shares as part of mezzanine lending	1,087	637	5.00% to 24.70%	5.00%
Total	**7,086**	**2,631**		

21. Available-for-sale investment securities (continued)

Investment in “Credit institutions” represents shares of Joint-Stock Bank Rosevrobank (“JSB Rosevrobank” or “Rosevrobank”) and shares of REG Holding Limited, which is the main shareholder of JSB Rosevrobank (see below).

“Investments in shares as part of mezzanine lending” involves the Group lending to large Russian companies and simultaneously purchasing a non-controlling stake in the borrowers as commission for issuing such loans.

Investment in Joint-Stock Bank Rosevrobank

On 7 September 2015, Sovcombank acquired 9.48% of shares in JSB Rosevrobank for RUB 1,133 MM. On 30 October 2015, 29 July 2016 and 10 November 2016 the Bank acquired 7.45%, 0.5% and 5.67% of shares in REG Holding Limited, which holds 73.82% of shares in Rosevrobank, for EUR 9 MM, EUR 1 MM and EUR 5 MM, respectively. As a result of these transactions, the Bank became an indirect owner of 10.06% of shares in Rosevrobank. As a result of all four acquisitions, Sovcombank became a direct and indirect owner of 19.54% shares of Rosevrobank. As at 31 December 2016, the carrying amount of investments in shares of Rosevrobank is RUB 4,888 MM (31 December 2015: RUB 1,883 MM).

According to its audited IFRS financial statements for the year ended 31 December 2016, Rosevrobank equity is RUB 31 BN (31 December 2015: RUB 26 BN) and net profit is RUB 6.2 BN (2015: RUB 5.5 BN). Rosevrobank’s principal business is issuing loans to small and medium-sized enterprises (SMEs) as well as cash and settlement services for SMEs.

The main reason for the acquisition of a stake in Rosevrobank was Rosevrobank’s SME expertise and its stable business model, which has delivered a substantial sustainable net profit for the observable past, as well as the bargain price.

22. Changes in other impairments and provisions

Changes in allowances for other assets and provisions for legal claims, commitments and contingencies were as follows:

	Other assets (Note 25)	*Provision for litigation (Note 32)*	*Provision for commitments and contingencies (Note 32)*	*Total*
As at 31 December 2014	**108**	**33**	**–**	**141**
Charge (Note 15)	199	18	202	**419**
Write-off	(242)	–	–	**(242)**
Redemption of obligations	–	(28)	–	**(28)**
As at 31 December 2015	**65**	**23**	**202**	**290**
Charge (Note 15)	67	210	508	**785**
Write-off	(30)	–	–	**(30)**
Redemption of obligations	–	(99)	–	**(99)**
As at 31 December 2016	**102**	**134**	**710**	**946**

As at 31 December 2016, “Provision for commitments and contingencies” includes the Group’s provision for bank guarantees of RUB 700 MM (31 December 2015: RUB 202 MM) issued to SMEs in accordance with Federal Law No. 44-FZ *On the Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ *On the Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

23. Investment property

The Group owns a number of real estate properties. The Group occupies some of these properties and rents out the excess space. Real estate occupied by the Group is part of Property and equipment and intangible assets (Note 24) and the remaining (rented out) real estate is classified as investment property.

23. Investment property (continued)

Management determines the fair value of all real estate properties based on annual independent appraisals.

	2016 RUB MM	*2015 RUB MM*
Fair value at the beginning of the year	77	76
Business combination (Note 40)	218	–
Transfer to property and equipment (Note 24)	(6)	2
Revaluation	(1)	(1)
Fair value at the end of the year	**288**	**77**

Investment property from "Business combination" consists of rented out real estate received as a result of the acquisition by the Group of "Garanti Bank – Moscow" JSC (Note 40).

24. Property and equipment and intangible assets

	Land and buildings RUB MM	*Leasehold improve-ments RUB MM*	*Computers RUB MM*	*ATMs RUB MM*	*Motor vehicles RUB MM*	*Furniture and equipment RUB MM*	*Intangible assets RUB MM*	*Total RUB MM*
Cost / revalued amount								
As at 1 January 2016	**553**	**7**	**381**	**853**	**77**	**392**	**1,869**	**4,132**
Effect of business combination (Note 40)	519	21	55	–	7	35	1,699	**2,336**
Additions	16	–	37	289	68	48	125	**583**
Disposals	(5)	–	(264)	(112)	(18)	(83)	(11)	**(493)**
Transfer to investment property (Note 23)	6	–	–	–	–	–	–	**6**
Revaluation	14	–	–	–	–	–	–	**14**
Elimination of accumulated depreciation on revalued assets	(11)	–	–	–	–	–	–	**(11)**
As at 31 December 2016	**1,092**	**28**	**209**	**1 030**	**134**	**392**	**3,682**	**6,567**
Depreciation and impairment								
As at 1 January 2016	**–**	**(2)**	**(248)**	**(654)**	**(28)**	**(240)**	**(334)**	**(1,506)**
Depreciation charge	(11)	(2)	(37)	(94)	(17)	(61)	(294)	**(516)**
Disposals	–	–	205	109	14	76	3	**407**
Elimination of accumulated depreciation on revalued assets	11	–	–	–	–	–	–	**11**
As at 31 December 2016	**–**	**(4)**	**(80)**	**(639)**	**(31)**	**(225)**	**(625)**	**(1,604)**
Carrying amount at 31 December 2016	**1,092**	**24**	**129**	**391**	**103**	**167**	**3,057**	**4,963**
Carrying amount at 31 December 2015	**553**	**5**	**133**	**199**	**49**	**152**	**1,535**	**2,626**

24. Property and equipment and intangible assets (continued)

	Land and buildings RUB MM	*Leasehold improve-ments RUB MM*	*Computers RUB MM*	*ATMs RUB MM*	*Motor vehicles RUB MM*	*Furniture and equipment RUB MM*	*Intangible assets RUB MM*	*Total RUB MM*
Cost / revalued amount								
As at 1 January 2015	**555**	**2**	**365**	**852**	**77**	**352**	**299**	**2,502**
Effect of business combination (Note 40)	–	–	5	–	–	–	1,536	**1,541**
Additions	(1)	–	–	–	–	(4)	–	**(5)**
Disposals	4	6	27	20	18	62	34	**171**
Transfer to assets held for sale	(2)	(1)	(16)	(19)	(18)	(18)	–	**(74)**
Transfer from investment property (Note 23)	(2)	–	–	–	–	–	–	**(2)**
Revaluation	10	–	–	–	–	–	–	**10**
Elimination of accumulated depreciation on revalued assets	(11)	–	–	–	–	–	–	**(11)**
As at 31 December 2015	**553**	**7**	**381**	**853**	**77**	**392**	**1,869**	**4,132**
Depreciation and impairment								
As at 1 January 2015	**–**	**(1)**	**(194)**	**(516)**	**(27)**	**(195)**	**(183)**	**(1,116)**
Depreciation charge	(11)	(1)	(69)	(148)	(13)	(63)	(151)	**(456)**
Disposals	–	–	–	–	–	4	–	**4**
Transfer to assets held for sale	–	–	15	10	12	14	–	**51**
Elimination of accumulated depreciation on revalued assets	11	–	–	–	–	–	–	**11**
As at 31 December 2015	**–**	**(2)**	**(248)**	**(654)**	**(28)**	**(240)**	**(334)**	**(1,506)**
Carrying amount as at 31 December 2015	**553**	**5**	**133**	**199**	**49**	**152**	**1,535**	**2,626**
Carrying amount as at 31 December 2014	**555**	**1**	**171**	**336**	**50**	**157**	**116**	**1,386**

Revalued assets

As at 31 December 2016, the Group recognised:

- A positive revaluation of RUB 9 MM in profit or loss (31 December 2015: a positive revaluation of RUB 4 MM)
- A positive revaluation of RUB 5 MM in other comprehensive income and revaluation reserve (31 December 2015: a positive revaluation of RUB 4 MM).

Were land and buildings not been revalued, their carrying amount would be RUB 1,131 MM as at 31 December 2016 (31 December 2015: RUB 540 MM).

25. Other assets

	2016 RUB MM	*2015 RUB MM*
Current income tax assets	1,081	598
Advances to suppliers	622	592
Rights to funds and securities	129	179
Advances for taxes other than VAT and income tax	44	18
Foreclosed assets	34	12
Settlements with personnel	32	17
Receivables for settlement services	16	10
VAT receivables for leasing operations	10	–
Other	6	5
	1,974	**1,431**
Allowance for impairment of advances to suppliers (Note 22)	(102)	(65)
	1,872	**1,366**

26. Due to customers

	2016 RUB MM	2015 RUB MM
Individuals		
Term deposits	229,574	127,143
Current accounts and demand deposits	7,045	2,683
Legal entities		
Term deposits	17,111	8,539
Current accounts and demand deposits	22,638	7,055
Amounts payable under repurchase agreements	99	–
	276,467	**145,420**

As at 31 December 2016 and 2015, ten largest customers had placed with the Bank respectively RUB 17,997 MM and RUB 11,422 MM. These balances represented 6.5% and 7.9% of "Current accounts and demand deposits" as at 31 December 2016 and 2015, respectively.

As at 31 December 2016 and 2015, the Group did not have customers whose current accounts and term deposits with the Bank exceeded 10% of current accounts and deposits from customers.

According to Russian legislation, the Group must repay term deposits placed by individuals upon demand of a client. If a term deposit is repaid prior to maturity, the interest rate on the deposit is reduced retrospectively to the prevailing interest rate for current accounts.

27. Due to the CBR

	2016 RUB MM	2015 RUB MM
Sale and repurchase agreements	42,292	149,041
Loans secured by assets	326	37,014
	42,618	**186,055**

As at 31 December 2016 and 2015, the Group pledged the following securities as collateral under sale and repurchase agreements with the CBR and other banks:

	2016		2015	
	Sale and repurchase agreements with the CBR RUB MM	Sale and repurchase agreements with other banks RUB MM	Sale and repurchase agreements with the CBR RUB MM	Sale and repurchase agreements with other banks RUB MM
Financial instruments pledged under sale and repurchase agreements				
Corporate bonds and Eurobonds	2,621	93,915	77,455	25,201
Corporate shares	–	–	470	–
State and municipal bonds	23,942	23,020	29,082	5,164
Bonds of companies with State participation	4,843	45,285	26,015	6,465
Shares in companies with State participation	–	–	101	–
Total carrying amount	**31,406**	**162,220**	**133,123**	**36,830**
Loans to customers pledged under sale and repurchase agreements				
Corporate bonds	–	2,304	3,653	–
State and municipal bonds	789	955	12,074	–
Bonds of companies with State participation	18,899	3,542	593	–
Total carrying amount	**19,688**	**6,801**	**16,320**	–
Placements with banks pledged under sale and repurchase agreements				
Corporate bonds	–	–	1,345	–
State and municipal bonds	–	–	554	–
Total carrying amount	**–**	**–**	**1,899**	**–**
Related liabilities	**42,292**	**141,654**	**149,041**	**30,881**

28. Due to banks

	2016 RUB MM	2015 RUB MM
Sale and repurchase agreements with other banks	141,654	30,881
LORO accounts	3,037	1,545
Deposits	505	45,943
	145,196	**78,369**

As at 31 December 2016, the Group had four counterparties whose balance exceeded 10% of Due to banks. As at 31 December 2016, respective liabilities were RUB 135,752 MM or 93.5% of Due to banks (31 December 2015: RUB 70,012 MM or 89.3% of Due to banks).

29. Debt securities issued

	2016 RUB MM	2015 RUB MM
Domestic bonds issued	7,178	1,024
Promissory notes	1,596	2,037
	8,774	**3,061**

As at 31 December 2016, the Group had three issues of domestic bonds on the market:

- With an aggregate nominal value of RUB 67 MM maturing in February 2019
- With an aggregate nominal value of RUB 10 MM maturing in June 2021; and
- With an aggregate nominal value of RUB 6,759 MM maturing in July 2021.

The annual interest rates on these bonds issued by the Group range from 11.5% to 12.5% as at 31 December 2016.

30. Other borrowed funds

On 23 September 2015, the DIA provided Sovcombank with a loan of RUB 49,850 MM bearing an interest rate of 0.51% and maturing on 23 September 2025. The purpose of the loan was to implement bankruptcy prevention measures in respect of “Express-Volga Bank” JSC (“EVB”) in accordance with the financial rehabilitation plan approved by the Board of Directors of the Bank of Russia (CBR) on 12 August 2015 (the “DIA Loan”).

As at 31 December 2016, the Group has pledged certain loans to individuals and corporate customers totalling RUB 49,003 MM as security for the DIA Loan.

The DIA Loan was issued to Sovcombank at 0.51% p.a., i.e. significantly below market rates. According to IAS 39, loans issued at interest rates other than market interest rates are measured at the date of issuance at fair value, which includes future interest payments and principal debt discounted on the basis of market interest rates. As at the date of issuance of the DIA Loan, the market interest rate paid by Sovcombank for similar loans was 14.9%.

	2016 RUB MM	2015 RUB MM
DIA loan	15,206	14,225
Other borrowed funds	485	–
	15,691	**14,225**

31. Subordinated debt

Bank’s participation in the anti-crisis plan of the Russian Government and receipt of subordinated loans from the DIA

On 27 January 2015, the Russian Government issued Decision No. 98-r approving the Plan of Priority Measures to Ensure Sustainable Development of the Economy and Social Stability in 2015 (the “Anti-crisis Plan”). On 23 January 2015, the Board of Directors of the DIA approved a list of banks selected to participate in the Anti-crisis Plan and the Russian Government approved it on 2 February 2015.

31. Subordinated debt (continued)

Bank's participation in the anti-crisis plan of the Russian Government and receipt of subordinated loans from the DIA (continued)

On 27 April 2015, the DIA provided the Group with five tranches of a subordinated loan of RUB 6,273 MM in total in the form of Russian State bonds ("OFZ bonds"), which were issued by the Russian Ministry of Finance. These bonds have maturities of 12 to 19 years. The key terms and conditions of the subordinated loan agreement are the following:

- The interest rates on these subordinated loan tranches are equal to the rates applicable to coupon income on equivalent OFZ bonds increased by 1% p.a.
- If an arbitration court declares the Bank insolvent (bankrupt), the DIA's claims to the subordinated loans will be settled after the settlement of the claims of all other creditors, but taking into consideration the priority of claims to subordinated debt
- If, subsequent to the provision of the subordinated loan, information is posted on the official CBR web-site regarding the Bank that one of the following has occurred:
    1) its core capital adequacy ratio (N1.1), calculated in accordance with Instruction No. 139-I of the Bank of Russia Concerning Mandatory Bank Ratios of 3 December 2012, drops below the level stated in the Regulation for Subordinated Loan Exchange, which was 2% for the period defined by the Regulation as at the date of the subordinated agreements; or
    2) the Committee on Banking Supervision of the CBR approves a plan for the DIA's participation in measures to prevent the Bank's bankruptcy. This plan provides that the DIA will deliver financial support pursuant to the Federal Law "On Insolvency (Bankruptcy)", and the DIA's claims will be exchanged into the Bank's ordinary shares in accordance with the terms of the subordinated loan agreement.

The CBR has confirmed that these subordinated loans may be included in the Bank's capital.

The Bank's balance sheet does not reflect the subordinated loan provided to the Bank by the DIA in the form of sovereign bonds, as these bonds are classified as "securities borrowed" in accordance with IAS 39.

Subordinated loan from SovCo Capital Partners N.V.

In July 2016, the Bank entered into an addendum to the agreement for the subordinated loan received from the shareholders of SovCo Capital Partners N.V., which introduced the following changes to its terms and provisions: the subordinated loan is provided on a perpetual basis and the Bank may unilaterally refuse to pay interest.

CBR approval is required for the loan to be repaid partially or in full, for interest to be paid on the loan early, for the subordinated loan agreement to be terminated, or for obligations under the subordinated loan to be terminated.

As at 31 December 2016, the Group classified the perpetual subordinated loan as equity in accordance with IAS 32 *Financial Instruments: Presentation*. Such an instrument qualifies as an equity component.

The Group records the USD-denominated perpetual subordinated loan in Ruble equivalent at the CBR exchange rate as at the reporting date, recognising the translation effect in retained earnings.

As the Bank may unilaterally elect not to pay interest and this decision is solely at the Bank's discretion, the respective expenses are recognised as dividends.

Type	*Principal, '000*	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*2016 RUB MM*	*2015 RUB MM*
Perpetual subordinated loan	94,470	USD	SovCo Capital Partners N.V.	10.00%	11 July 2016	–	5,770	–
Subordinated debt	94,470	USD	SovCo Capital Partners N.V.	14.00%	16 December 2013	16 December 2073	–	6,958
Subordinated debt	1,000,000	RUB	SovCo Capital Partners N.V.	15.00%	18 October 2016	30 March 2023	1,011	–
Subordinated debt	470,000	RUB	SovCo Capital Partners N.V.	14.85%	18 October 2016	31 March 2021	473	–
							7,254	**6,958**

32. Other liabilities

	2016 RUB MM	*2015 RUB MM*
Payables to personnel	1,624	1,061
Deferred revenues	1,523	573
Provision for commitments and contingencies (Note 22)	710	202
Current income tax payable	600	28
Payables to suppliers	588	311
Accrued expenses on obligatory deposit insurance	234	119
Taxes payable other than VAT and income tax	204	64
Provision for litigation (Note 22)	134	23
VAT payable	28	34
Settlements on currency conversion operations	3	529
Other	149	313
	5,797	**3,257**

“Deferred revenues” relate to commissions for the issuance of bank guarantees and corporate loans.

As at 31 December 2016, “Accrued expenses on obligatory deposit insurance” increased due to growth in the deposit portfolio placed with the Bank by individuals.

“Settlements on currency conversion operations” represent the fair value of the currency swaps the Group entered in order to manage its open currency position (currency risk).

33. Deferred tax

Changes in temporary differences during the years ended 31 December 2016 and 2015 were as follows:

		Origination and reversal of temporary differences					*Origination and reversal of temporary differences*				
	2014	*In statement of profit or loss*	*In other compre-hensive income*	*Effect of business combi-nation*	*Excluded from consoli-dation*	*2015*	*In statement of profit or loss*	*In other compre-hensive income*	*Effect of business combi-nation*	*Excluded from consoli-dation*	*2016*
Tax effect of deductible temporary differences											
Other assets	**146**	(66)	–	–	–	**80**	156	–	94	–	**330**
Due to customers	**(4)**	36	–	–	–	**32**	30	–	1	–	**63**
Other liabilities	**79**	158	–	–	(5)	**232**	(121)	–	18	–	**129**
Tax loss carry forward asset	–	4,038	–	–	–	**4,038**	(5,238)	–	1,200	–	–
Deferred tax asset	**221**	**4,166**	**–**	**–**	**(5)**	**4,382**	**(5,173)**	**–**	**1,313**	**–**	**522**
Tax effect of taxable temporary differences											
Financial instruments at fair value through profit or loss	**726**	(7,155)	–	–	–	**(6,429)**	4,917	–	(1,035)	–	**(2,547)**
Investment securities available-for-sale	–	–	–	–	–	–	–	(397)	–	–	**(397)**
Loans to customers	**664**	(979)	–	–	–	**(315)**	(308)	–	89	–	**(534)**
Property and equipment and intangible assets	**(44)**	10	(1)	(313)	–	**(348)**	339	(16)	7	–	**(18)**
Cash and cash equivalents	**(1)**	(47)	–	–	–	**(48)**	(67)	–	–	–	**(115)**
Placements with banks	**(7)**	6	–	–	–	**(1)**	(1,322)	–	57	–	**(1,266)**
Debt securities issued	**25**	(15)	–	–	–	**10**	(20)	–	–	–	**(10)**
Investment property	**(5)**	5	–	–	–	**–**	–	–	–	–	**–**
Deferred tax liability	**1,358**	**(8,175)**	**(1)**	**(313)**	**–**	**(7,131)**	**3,539**	**(413)**	**(882)**	**–**	**(4,887)**
Deferred tax asset	**1,579**	**(1,572)**	**–**	**–**	**(5)**	**2**	**494**	**–**	**–**	**–**	**496**
Deferred tax liability	**–**	**(2,437)**	**(1)**	**(313)**	**–**	**(2,751)**	**(2,128)**	**(413)**	**431**	**–**	**(4,861)**

34. Equity

In September 2014, in accordance with Russian legislation, the Bank changed its legal form from a limited liability company into an open joint-stock company and, in December 2014, into a public joint-stock company.

As at 31 December 2016 the share capital was RUB 1,716 MM (as at 31 December 2015: 1,906 MM).

As at 31 December 2016, the number of authorised ordinary shares with a nominal value of RUB 0.1 each was 17,155,942,700 (as at 31 December 2015: 19,060,040,773).

34. Equity (continued)

The decrease in the Group's share capital was due to a buy-back by SovCo Capital Partners N.V. of 1,904,098,073 shares with a nominal value of RUB 190 MM, or 9.99% of the total number of outstanding shares, for RUB 1,795 MM. The buy-back was approved by the Board of Directors on 5 September and 8 December 2014; and took place on 19 September and 8 December 2014. As at 31 December 2016, the treasury shares were redeemed (as at 31 December 2015 the shares bought back were recorded as Treasury shares in the consolidated statement of financial position).

The shareholders provided the capital to the Bank in Russian Rubles and are entitled to dividends and any capital distribution in Russian Rubles only.

The total amount of dividends including interest on the perpetual subordinated loan paid by Sovcombank to the sole shareholder Sovco Capital Partners N.V. in 2016 was RUB 4,613 MM (in 2015: RUB 3,656 MM).

35. Commitments

The Group has outstanding off-balance sheet commitments to extend loans. These commitments may be in a form of approved loans, credit card limits or overdraft facilities.

The Group provides bank guarantees to ensure that the Group's customers meet their liabilities to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The commitments by category were as follows:

*Contractual amount**	*2016 RUB MM*	*2015 RUB MM*
Bank guarantees	71,812	27,025
Loan and credit line commitments	51,238	17,756
Total	**123,050**	**44,781**
Provision for commitments (Note 22)	**(700)**	**(202)**

* The contractual amounts shown in the table assume that commitments are settled in full.

As at 31 December 2016, Bank guarantees include the Group's guarantees to SMEs issued in accordance with Federal Law No. 44-FZ *On the Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ *On the Purchases of Goods, Work and Services by Certain Types of Legal Entity* totalling RUB 58,926 MM (as at 31 December 2015: RUB 19,248 MM).

As at 31 December 2016, unused limits of bank guarantees were RUB 18,157 MM (31 December 2015: RUB 1,038 MM).

Overall contractual commitments to issue loans rarely result in actual cash outflow, as such commitments may be cancelled or may expire without actual funding being provided. In addition, according to the majority of loan agreements the Group may refuse to issue a loan at its own discretion.

In July 2014, the Group sold to a third party an office building occupied by the Bank and located at the address: Russia, Moscow, Krasnopresnenskaya naberezhnaya, 14, building 1 (Note 24). Simultaneously, the Bank entered into a long-term rental agreement to rent the office premises occupied by the Bank with the new owner. The rental agreement expires in September 2024. According to the rental agreement, Sovcombank may unilaterally terminate the agreement starting from July 2018. The office rent before July 2018 represents an operating lease commitment.

Office rent on rental agreements constitutes operating lease commitments and as at 31 December 2016 and 2015 was as follows:

Operating lease commitments	*2016 RUB MM*	*2015 RUB MM*
No later than 1 year	291	335
From 1 to 5 years	186	503
	477	**838**

36. Contingencies

Litigation

In the ordinary course of business, the Group is involved in legal action and claims. Management believes that the ultimate liability, if any, arising from such action or claims will not have a material adverse effect on the financial position or performance of the Group. From 2011 through 2016, the Group was involved in litigation mainly in relation to up-front lending commission which the Group charged to borrowers until 2010 and third-party insurance policies sold by the Group to individual borrowers when loans were originated. The Group creates provisions for these litigations equal to the difference between the total amount of litigation claims and the total amount paid in relation to these litigation claims. As at 31 December 2016 and 2015, the provisions for litigation claims were RUB 18 MM and RUB 23 MM respectively. Management believes that the provisions fully cover all the possible risks (Note 22).

In 2016, the Group began creating a provision for litigation claims related to bank guarantees issued for the State procurement under Federal Laws No. 44-FZ and No. 223-FZ. As at 31 December 2016, the total provision created was RUB 116 MM (Note 22).

Tax contingencies

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes which can occur frequently and may apply retrospectively.

Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant state authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and in their assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Under certain circumstances, audits may cover earlier periods.

Russian transfer pricing legislation allows the tax authorities to apply transfer pricing adjustments and impose additional income tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market price range. The list of controlled transactions includes transactions between related parties and certain types of transaction with unrelated parties that are considered the same as controlled transactions.

The obligation to prove the consistency of transaction prices with market prices is imposed on taxpayers. These rules are applied not only to transactions carried out in 2016, but also to transactions carried out in previous tax periods, if the respective gains and losses were recognised in 2016 (except for certain types of transaction). Transactions with securities and derivative financial instruments are subject to special transfer pricing rules.

In 2016, the Group determined its tax liabilities arising from controlled transactions on the basis of actual transaction prices or by adjusting actual prices in accordance with transfer pricing rules (if applicable).

From 1 January 2015, Russian tax legislation was amended to include the terms "tax residency" in respect of foreign legal entities and "beneficiary owner", as well as taxation rules for retained earnings of foreign controlled companies in the Russian Federation. Overall, the adoption of the law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or pay income from sources in the Russian Federation to foreign entities. There is uncertainty regarding the procedure for the application of the new rules, their possible interpretation by the Russian tax authorities, and the effect on the tax liabilities of the Group.

Management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's positions in respect of tax, currency and customs legislation will be sustained.

37. Risk management

Risk management is one of the Group's most important internal processes. The ultimate goal of the Group risk management policy is to ensure that all significant types of risk are identified early and are appropriately mitigated.

Risk management policies and procedures

The Group identifies, assesses and mitigates existing and emerging risks through a combination of efficient risk management tools and policies, as well as strict compliance with the Group's corporate governance principles. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered, as well as emerging best practice in risk management.

37. Risk management (continued)

Risk management policies and procedures (continued)

The Supervisory Board of the Group has an overall responsibility for establishing the risk management framework, overseeing the management of key risks, reviewing the Group risk management policies and procedures and approving significant counterparty exposures.

The Management Board of the Group is responsible for the application of the risk-management system and implementation of risk mitigation measures, as well as for ensuring that the Group operates within the established risk limits.

The application of risk management policies is subject to a regular review by the Internal Audit Department.

Financial risks, such as credit, market and liquidity risks, are managed by the Credit Committees and the Liquidity Management Committee (LMC).

The primary types of risk affecting the Group are:

- Market risk (which includes interest rate, currency and prepayment risks)
- Credit risk
- Liquidity and funding risk
- Operational risk.

Market risk

Market risk is a risk that the Group's profit and/or net assets will decrease due to unfavourable changes in the market (including fluctuations and increased volatility of interest rates, expected inflation rates, credit spreads and prices for equity and bonds, foreign exchange rates, prices for real estate, commodities and other instruments).

The Group is exposed to a number of market risks, the principal ones being: interest rate, currency and prepayment risks.

The Group manages its market risk using a methodology approved by the Management Board and applies a range of indicators to identify whether the risk assumed by the Group is in line with the approved risk limits and potential market conditions. Senior management regularly communicates all significant risk exposures to appropriate committees responsible for monitoring and oversight.

For the purpose of managing the risk related to non-trading transactions, corresponding assets and liabilities are offset against one another and the remaining risk is covered by currency swaps. In the course of managing the risk related to non-trading transactions, the Group monitors and controls the exposure arising from the excess of the margin of interbank rates over the CBR rates through the appropriate hedging.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group sets limits on the acceptable level of mismatch for interest rate revision.
The sensitivity of the fair value of such instruments includes the effect of plausible changes in risk-free interest rates for one year. The above parameter is measured by reference to the effect of the fair value of the given fixed-rate instruments held as at 31 December 2016 and 2015. Such measurement envisages applying the assumption of a parallel shift in the yield curve.

Currency	*Increase in basis points*	*Change in net interest income 2016*	*Change in net interest income 2015*
RUB	100	(3,093)	(1,876)
USD	100	(1,716)	(3,913)
EUR	100	(13)	(24)

Currency	*Decrease in basis points*	*Change in net interest income 2016*	*Change in net interest income 2015*
RUB	100	3,093	1,876
USD	100	1,716	3,913
EUR	100	13	24

To reduce interest rate risk the Bank enters into long-term currency and interest rate swaps with major Russian and foreign banks. More detailed information is presented in Derivative financial instruments (Note 19).

37. Risk management (continued)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Currency risk arises when the actual or forecasted assets denominated in a foreign currency mismatch the liabilities in the same currency. The Group's policy requires that total currency risk exposure must not exceed 10% of net assets attributable to shareholders.

To manage currency risk mainly arising from the mismatch of volumes of foreign currency assets and liabilities, the Group enters into currency swaps for the respective currencies through the Moscow Exchange.

Sensitivity of the Group's annual profit or loss and net assets attributable to shareholders to changes in foreign currency exchange rates as at 31 December 2016 and 2015 was as follows:

	2016 Profit or loss RUB MM	*2015 Profit or loss RUB MM*
20% appreciation of USD vs. RUB	1,309	(81)
20% depreciation of USD vs. RUB	(1,309)	81
20% appreciation of EUR vs. RUB	(3)	–
20% depreciation of EUR vs. RUB	3	–

The table below shows assets and liabilities by currency as at 31 December 2016:

	RUB RUB MM	*USD RUB MM*	*EUR RUB MM*	*Other RUB MM*	*Total RUB MM*
Assets					
Cash and cash equivalents	14,095	1,932	5,413	25	**21,465**
Mandatory cash balances with the CBR	3,017	–	–	–	**3,017**
Placements with banks	64	–	320	–	**384**
Financial instruments at fair value through profit or loss					
- held by the Group	43,882	46,124	341	1,245	**91,592**
- pledged under sale and repurchase agreements	70,901	122,725	–	–	**193,626**
Available-for-sale investment securities	7,086	–	–	–	**7,086**
Loans to customers	223,462	14,957	1	–	**238,420**
Investments in associates	802	–	–	–	**802**
Assets held for sale	134	–	–	–	**134**
Investments in car leasing joint venture	456	–	–	–	**456**
Investment property	288	–	–	–	**288**
Property and equipment and intangible assets	4,963	–	–	–	**4,963**
Goodwill	728	–	–	–	**728**
Deferred tax asset	496	–	–	–	**496**
Other assets	1,870	–	–	2	**1,872**
Total assets	**372,244**	**185,738**	**6,075**	**1,272**	**565,329**
Liabilities					
Due to the CBR	326	42,292	–	–	**42,618**
Due to banks	63,551	81,628	17	–	**145,196**
Due to customers	262,167	9,472	4,826	2	**276,467**
Debt securities issued	8,471	142	161	–	**8,774**
Other borrowed funds	15,206	485	–	–	**15,691**
Subordinated debt	1,484	–	–	–	**1,484**
Deferred tax liability	4,861	–	–	–	**4,861**
Non-controlling interest	525	–	–	–	**525**
Other liabilities	5,791	6	–	–	**5,797**
Total liabilities	**362,382**	**134,025**	**5,004**	**2**	**501,413**
Net on-balance sheet position at 31 December 2016	**9,862**	**51,713**	**1,071**	**1,270**	**63,916**
Net off-balance sheet position at 31 December 2016	**47,453**	**(45,169)**	**(1,085)**	**(1,199)**	**–**
Perpetual subordinated debt received	–	5,770	–	–	**5,770**
Net position at 31 December 2016	**57,315**	**774**	**(14)**	**71**	**58,146**
Credit-related commitments	**111,372**	**11,642**	**36**	–	**123,050**

37. Risk management (continued)

Currency risk (continued)

The table below shows assets and liabilities by currency as at 31 December 2015:

	RUB RUB MM	*USD RUB MM*	*EUR RUB MM*	*Other RUB MM*	*Total RUB MM*
Assets					
Cash and cash equivalents	27,409	10,034	15,077	8	**52,528**
Mandatory cash balances with the CBR	897	–	–	–	**897**
Placements with banks	19,030	4,711	–	–	**23,741**
Financial instruments at fair value through profit or loss					
- held by the Group	27,693	9,161	–	–	**36,854**
- pledged under sale and repurchase agreements	46,642	121,291	509	1,511	**169,953**
Available-for-sale investment securities	2,631	–	–	–	**2,631**
Loans to customers	146,634	28,574	1	–	**175,209**
Investments in associates	1,208	–	–	–	**1,208**
Investments in car leasing joint venture	486	–	–	–	**486**
Investment property	77	–	–	–	**77**
Property and equipment and intangible assets	2,626	–	–	–	**2,626**
Goodwill	364	–	–	–	**364**
Deferred tax asset	2	–	–	–	**2**
Other assets	1,291	73	–	2	**1,366**
Total assets	**276,990**	**173,844**	**15,587**	**1,521**	**467,942**
Liabilities					
Due to the CBR	126,234	59,821	–	–	**186,055**
Due to banks	50,088	27,709	572	–	**78,369**
Due to customers	128,862	10,836	5,718	4	**145,420**
Debt securities issued	2,636	208	217	–	**3,061**
Other borrowed funds	14,225	–	–	–	**14,225**
Subordinated debt	–	6,958	–	–	**6,958**
Deferred tax liability	2,751	–	–	–	**2,751**
Non-controlling interest	525	–	–	–	**525**
Other liabilities	3,250	7	–	–	**3,257**
Total liabilities	**328,571**	**105,539**	**6,507**	**4**	**440,621**
Net on-balance sheet position at 31 December 2015	**(51,581)**	**68,305**	**9,080**	**1,517**	**27,321**
Net off-balance sheet position at 31 December 2015	**81,229**	**(69,983)**	**(9,832)**	**(1,414)**	**–**
Net position at 31 December 2015	**29,648**	**(1,678)**	**(752)**	**103**	**27,321**
Credit-related commitments	**43,236**	**1,516**	**29**	**–**	**44,781**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because some of its customers repay or request repayment earlier or later than expected.

The Group evaluates the prepayment risk for consumer loans. In 2016, consumer loans repaid early were RUB 9,097 MM or 23.11% of expected payments (2015: RUB 6,020 MM or 13.69%). The Group's financial results and equity at the end of the current reporting period were not significantly impacted by loans repaid early.

Credit risk

Credit risk is defined as the risk that parties which have contractual relationships with the Group fail to discharge their on-balance sheet or off-balance sheet obligations. Adverse changes in the credit quality of the Group's borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets and increase the Group's write-downs and allowances for impairment.

The Group's performance is highly exposed to macroeconomic and other factors, including, inter alia, economic slowdown in the Russian Federation, lower consumer spending, excess debt burden of consumers, unemployment growth and rising interest rates. These factors may influence the Group's risk profile. The possibility of further macroeconomic downside risk remains.

37. Risk management (continued)

Credit risk (continued)

The Group takes certain actions to mitigate credit risk, i.e.:

- It designs prudent risk management policies and also sets limits on the level of exposure in light of changes in the macroeconomic environment
- It clearly defines levels of authority (including independently set and monitored credit limits for counterparties, access to effective scoring models, credit policies, etc.)
- It applies robust credit processes and risk control methods
- It has permanently operating committees, which ensure that risks are identified, analysed and managed, and that sufficient allowances for distressed and impaired loans are made based on the Group's latest view of current and expected market conditions as well as refinancing risk.

The Credit Committee is a standing body of the Group, authorised to make decisions on all issues relating to the Group's credit operations. The credit risk policy is defined by the Group's Credit Committee considering the recommendations from the Risk Department and is subject to the Management Board's approval. The Risk Department is generally responsible for the application of procedures and policies approved by the Credit Committee, as well as for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for issuing a new loan or upon the renewal of an existing credit facility.

The Group has policies and procedures for the management of credit exposures (both for on-balance sheet and off-balance sheet items) including the requirement to set limits on the concentration of the corporate loan portfolio. The Group's credit policy establishes:

- Procedures for the review and approval process for different types of loan product
- Methodology for the creditworthiness assessment of lessees
- Methodology for the creditworthiness assessment of borrowers (legal entities and individuals)
- Methodology for the creditworthiness assessment of issuers and insurance companies
- Methodology for the evaluation and monitoring of collateral
- Procedures for the ongoing monitoring of loans and other products exposed to credit risk
- Procedures for the collection process for different types of borrowers and lessees.

Analysis and revision of the policies, methodologies and procedures related to credit risk are undertaken at least annually and incorporate recommendations obtained in the course of internal audits.

All retail loan applications are reviewed by the Risk Department by means of statistical modelling, loan application data verification and by considering a number of criteria, including, inter alia, the applicant's indebtedness, source of income, history with the Bank, etc. Some retail loan applications are subject to additional verification by the Bank's Economic Security Department. All underwriting procedures are approved by the Credit Committee.

The Group considers corporate lending to be a strategic activity. Nevertheless, it takes a highly selective approach to corporate lending, in particular with regards to new corporate borrowers. Corporate loan applications are checked by client managers and are then passed on to the Risk Department. The Risk Department prepares an independent report based on a structured analysis focusing on the customer's business, reputation, history with the Bank and financial performance. The Financial Monitoring Department and the Economic Security Department independently review every corporate loan application and generate a report reflecting their opinion, in particular, on whether the credit policy requirements are met. During the loan approval process, an evaluation of guarantees and collateral is undertaken, as well as an assessment of the guarantor's ability to meet its obligations. Every corporate loan application must be approved by the Credit Committee and/or the Supervisory Board, depending on the loan amount.

The Group continuously monitors the performance of individual credit exposures and regularly assesses the creditworthiness of its customers. The review is based on the given customer's most recent financial statements (for legal entities), income information (for individuals) and other information submitted by the borrower or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisers or by the Group's own specialists. Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

The Group's maximum exposure to credit risk is generally represented by the fair value of financial assets recognised in the balance sheet and the off-balance sheet credit-related commitments. The impact of the possible offset of assets and liabilities to reduce potential credit exposure is not significant.

37. Risk management (continued)

Credit risk (continued)

In the table below cash and cash equivalents and loans to banks and customers with a high grade are those with a minimal level of credit risk, normally with a credit rating on or close to the sovereign level or very well collateralised. Other borrowers with a good financial position and good debt service history are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities a high grade is equivalent to a Fitch or S&P (Moody's) BBB- (Baa3) rating and above, while standard grade is equivalent to a rating below BBB- (Baa3) but above B- (B3), while sub-standard is below B- (B3). Loans to State and municipal entities and Government and municipal bonds are classified as standard grade.

		Neither past due nor impaired					
31 December 2016	***Notes***	***High grade RUB MM***	***Standard grade RUB MM***	***Sub-standard grade RUB MM***	***Past due but not impaired RUB MM***	***Individually impaired RUB MM***	***Total RUB MM***
Cash and cash equivalents, except for cash on hand	17	13,486	2,501	20	–	–	**16,007**
Placements with banks	18	–	384	–	–	–	**384**
Loans to customers	20						
Loans to individuals							
Consumer loans		–	46,548	–	3,217	–	**49,765**
Car loans		–	20,213	–	1,262	–	**21,475**
Credit cards		–	5,549	–	341	–	**5,890**
Mortgages		–	2,674	–	497	–	**3,171**
Loans to corporate customers							
State and municipal		–	69,305	–	392	–	**69,697**
Loans to corporate entities		–	44,647	–	–	834	**45,481**
SME and other loans to customers		–	4,020	–	203	–	**4,223**
Bonds of companies with state participation		–	26,251	–	–	–	**26,251**
Corporate bonds		557	9,711	–	–	–	**10,268**
Government and municipal bonds		–	2,199	–	–	–	**2,199**
Total		**14,043**	**234,002**	**20**	**5,912**	**834**	**254,811**

		Neither past due nor impaired					
31 December 2015	***Notes***	***High grade RUB MM***	***Standard grade RUB MM***	***Sub-standard grade RUB MM***	***Past due but not impaired RUB MM***	***Individually impaired RUB MM***	***Total RUB MM***
Cash and cash equivalents, except for cash on hand	17	26,447	20,946	–	–	–	**47,393**
Placements with banks	18	1,534	22,207	–	–	–	**23,741**
Loans to customers	20						
Loans to individuals							
Consumer loans		–	46,117	–	4,546	–	**50,663**
Credit cards		–	5,782	–	494	–	**6,276**
Mortgages		–	1,349	–	594	–	**1,943**
Loans to corporate customers							
State and municipal		–	47,491	–	2	–	**47,493**
Loans to corporate entities		–	50,076	–	–	169	**50,245**
SME and other loans to customers		–	2,135	–	90	–	**2,225**
Corporate bonds		1,690	2,600	–	–	–	**4,290**
Government and municipal bonds		–	12,074	–	–	–	**12,074**
Total		**29,671**	**210,777**	**–**	**5,726**	**169**	**246,343**

37. Risk management (continued)

Credit quality of loans to individuals

The credit quality of loans to individuals is assessed and managed by the Group based on the number of days overdue. The tables below show the credit quality of loans to individuals based on the number of days overdue as at 31 December 2016 and 2015:

As at 31 December 2016

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans				
- Not past due	47,048	(500)	46,548	1.06%
- Overdue less than 30 days	2,095	(178)	1,917	8.50%
- Overdue from 30 to 89 days	1,223	(611)	612	49.96%
- Overdue from 90 to 179 days	1,339	(1,007)	332	75.21%
- Overdue from 180 to 360 days	2,908	(2,552)	356	87.76%
Total consumer loans	**54,613**	**(4,848)**	**49,765**	**8.88%**
Credit cards				
- Not past due	5,728	(179)	5,549	3.13%
- Overdue less than 30 days	238	(39)	199	16.39%
- Overdue from 30 to 89 days	145	(81)	64	55.86%
- Overdue from 90 to 179 days	178	(141)	37	79.21%
- Overdue from 180 to 360 days	430	(389)	41	90.47%
Total credit cards	**6,719**	**(829)**	**5,890**	**12.34%**
Mortgages				
- Not past due	2,766	(92)	2,674	3.33%
- Overdue less than 30 days	140	(7)	133	5.00%
- Overdue from 30 to 89 days	78	(6)	72	7.69%
- Overdue from 90 to 179 days	38	(5)	33	13.16%
- Overdue from 180 to 360 days	110	(27)	83	24.55%
- Overdue more than 360 days	396	(220)	176	55.56%
Total mortgages	**3,528**	**(357)**	**3,171**	**10.12%**
Car loans				
- Not past due	20,213	–	20,213	0.00%
- Overdue less than 30 days	526	–	526	0.00%
- Overdue from 30-89 days	190	–	190	0.00%
- Overdue from 90-179 days	189	–	189	0.00%
- Overdue from 180 to 360 days	357	–	357	0.00%
Total car loans	**21,475**	**–**	**21,475**	**0.00%**
Total loans to individuals	**86,335**	**(6,034)**	**80,301**	**6.99%**

The car loans portfolio consists of the fair value of car loans issued by "Metcombank" JSC to individuals as at 31 December 2016. Had the Group not applied IFRS 3 *Business Combinations,* the credit quality of car loans to individuals based on the number of days overdue as at 31 December 2016 would have been as follows:

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
- Not past due	20,705	(53)	20,652	0.26%
- Overdue less than 30 days	539	(29)	510	5.38%
- Overdue from 30-89 days	198	(42)	156	21.21%
- Overdue from 90-179 days	197	(107)	90	54.31%
- Overdue from 180 to 360 days	372	(305)	67	81.99%
Total car loans	**22,011**	**(536)**	**21,475**	**2.44%**

37. Risk management (continued)

Credit quality of loans to individuals (continued)

As at 31 December 2015

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans				
- Not past due	46,620	(503)	46,117	1.08%
- Overdue less than 30 days	2,683	(333)	2,350	12.41%
- Overdue from 30 to 89 days	1,778	(891)	887	50.11%
- Overdue from 90 to 179 days	2,056	(1,453)	603	70.67%
- Overdue from 180 to 360 days	5,206	(4,500)	706	86.44%
Total consumer loans	**58,343**	**(7,680)**	**50,663**	**13.16%**
Credit cards				
- Not past due	5,869	(87)	5,782	1.48%
- Overdue less than 30 days	317	(56)	261	17.67%
- Overdue from 30 to 89 days	228	(129)	99	56.58%
- Overdue from 90 to 179 days	265	(204)	61	76.98%
- Overdue from 180 to 360 days	744	(671)	73	90.19%
Total credit cards	**7,423**	**(1,147)**	**6,276**	**15.45%**
Mortgages				
- Not past due	1,364	(15)	1,349	1.10%
- Overdue less than 30 days	91	(5)	86	5.49%
- Overdue from 30 to 89 days	171	(20)	151	11.70%
- Overdue from 90 to 179 days	140	(31)	109	22.14%
- Overdue from 180 to 360 days	262	(101)	161	38.55%
- Overdue more than 360 days	222	(135)	87	60.81%
Total mortgages	**2,250**	**(307)**	**1,943**	**13.64%**
Total loans to individuals	**68,016**	**(9,134)**	**58,882**	**13.43%**

Credit quality of loans to corporate customers

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

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers				
Unimpaired loans*	**158,005**	**(1,316)**	**156,689**	**0.83%**
Impaired loans				
- Not past due	1,043	(209)	834	20.04%
- Overdue less than 90 days	510	(21)	489	4.12%
- Overdue more than 90 days and less than 1 year	142	(98)	44	69.01%
- Overdue more than 1 year	112	(49)	63	43.75%
Total impaired loans	**1,807**	**(377)**	**1,430**	**20.86%**
Individual impairment	1,043	(209)	834	20.04%
Collective impairment	764	(168)	596	21.99%
Total loans to corporate customers	**159,812**	**(1,693)**	**158,119**	**1.06%**

* Including bonds of companies with state participation of RUB 26,587 MM, corporate bonds of RUB 10,386 MM and State and municipal bonds of RUB 2,212 MM, reclassified into loans to corporate customers (Note 20).

37. Risk management (continued)

Credit quality of loans to corporate customers (continued)

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

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers				
Unimpaired loans*	**116,778**	**(713)**	**116,065**	**0.61%**
Impaired loans:				
- Overdue less than 90 days	76	(10)	66	13.16%
- Overdue more than 90 days and less than 1 year	36	(13)	23	36.11%
- Overdue more than 1 year	232	(59)	173	25.43%
Total impaired loans	**344**	**(82)**	**262**	**23.84%**
Individual impairment	223	(54)	169	24.22%
Collective impairment	121	(28)	93	23.14%
Total loans to corporate customers	**117,122**	**(795)**	**116,327**	**0.68%**

* Including State and municipal bonds of RUB 12,149 MM and corporate bonds of RUB 4,324 MM, reclassified into corporate loans (Note 20).

Impairment assessment

Collectively assessed allowances

Impairment allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgages, consumer loans, loans to corporate customers and finance lease receivables) and for individually significant loans where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The Group estimates impairment allowances for loans to individuals based on statistics in relation to past historical losses and, where there is sufficient statistical data available, based on peer group statistics for comparable loan groups. The Group estimates the impairment allowance for corporate loans based on an analysis of the future cash flows for impaired loans or based on statistics in relation to past losses on loan portfolios for which no indication of impairment is identified.

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated.

The objective indicators of loan impairment include the following:

- ► Overdue payments under the loan agreement
- ► Significant deterioration in the financial position of the borrower
- ► Deterioration in the business environment or negative changes in the borrower's market.

Individually assessed allowances

The Group determines appropriate allowances for each individually significant loan or advance on an individual basis. Factors considered when determining the loan loss allowance include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy occur, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention.

Allowances created in respect of securities reclassified to corporate loans

An allowance for corporate bonds reclassified as corporate loans is calculated on the basis of the long-term issuer rating assigned by international rating agencies (S&P, Fitch and Moody's) to each issuer of bonds, and the probability of default of the issuer within one year. The probability of default of each issuer within one year is determined on the basis of the Fitch Ratings agency research "Global Corporate Finance 2013 Transition and Default Study" as the average probabilities of default of the issuer of each rating in emerging economies within one year during the period 1990-2013. The allowance varies from 0.19% to 2.90%.

37. Risk management (continued)

Liquidity and funding risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity and funding risk limits are set by the Supervisory Board and are reviewed and approved annually by the Management Board.

The Group's liquidity and funding position is underpinned by its significant customer deposit base, and has been supported by stable funding from the wholesale markets and the CBR as well as by the diversified portfolio of highly liquid assets, which the Group maintains in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Group continuously and on a daily basis monitors and controls whether its operations are in line with the regulator's liquidity requirements and monitors the market environment and intra-Group circumstances, focusing on early indicators of liquidity risk either on the market or within the Group. In 2015-2016, the Bank's operations complied with all regulatory liquidity requirements.

The Group carries out stress testing of its liquidity position against a range of scenarios on a monthly basis. The results of stress testing are reviewed by the ALCO monthly. The Group's liquidity risk limits are calculated in relation to a number of parameters impacting changes in liquidity.

The liquidity management policy of the Group consists of:

- Projecting cash flows by major currency and calculating the level of liquid assets necessary in relation thereto
- Maintaining a diverse range of funding sources
- Managing the concentration and profile of debt
- Maintaining a portfolio of highly marketable assets that can easily be realised as protection against any interruption to cash flows
- Maintaining liquidity and funding contingency plans
- Monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then builds an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, bank deposits and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The following tables show the undiscounted cash flows of the Group's financial liabilities, guarantees and off-balance sheet credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow related to the financial liability or commitment. The Group's expected cash flows related to these financial liabilities and off-balance sheet credit-related commitments may vary significantly from this analysis.

Financial liabilities as at 31 December 2016	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to the CBR	42,657	–	–	–	–	**42,657**	**42,618**
Due to banks	143,811	205	1,236	312	58	**145,622**	**145,196**
Due to customers	100,637	65,547	78,240	42,625	–	**287,049**	**276,467**
Debt securities issued	73	190	8,192	936	444	**9,835**	**8,774**
Other borrowed funds	–	54	677	875	45,071	**46,677**	**15,691**
Subordinated debt	20	34	166	1,450	1,047	**2,717**	**1,484**
Other liabilities	2,215	–	–	–	–	**2,215**	**2,215**
Total financial liabilities	**289,413**	**66,030**	**88,511**	**46,198**	**46,620**	**536,772**	**492,445**
Credit-related commitments	**34,552**	**14,023**	**24,091**	**50,384**	**–**	**123,050**	**123,050**

37. Risk management (continued)

Liquidity and funding risk (continued)

Financial liabilities as at 31 December 2015	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to the CBR	125,225	58,258	3,371	367	–	**187,221**	**186,055**
Due to banks	33,006	1,869	3,960	21,080	69,770	**129,685**	**78,369**
Due to customers	27,349	22,475	43,956	68,313	–	**162,093**	**145,420**
Debt securities issued	100	696	1,799	174	647	**3,416**	**3,061**
Other borrowed funds	–	63	191	1,017	51,052	**52,323**	**14,225**
Subordinated debt	80	158	726	3,858	58,008	**62,830**	**6,958**
Other liabilities	1,901	–	–	–	–	**1,901**	**1,901**
Total financial liabilities	**187,661**	**83,519**	**54,003**	**94,809**	**179,477**	**599,469**	**435,989**
Credit-related commitments	**17,401**	**6,254**	**6,819**	**14,307**	**–**	**44,781**	**44,781**

The following table shows the monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2016:

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Sub total less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Sub total more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	21,465	–	–	**21,465**	–	–	–	–	**21,465**
Mandatory cash balances with the CBR	851	705	816	**2,372**	401	–	401	244	**3,017**
Placements with banks	–	–	–	**–**	–	384	384	–	**384**
Financial instruments at fair value through profit or loss:									
- held by the Group	91,592	–	–	**91,592**	–	–	–	–	**91,592**
- pledged under repurchase agreements	193,626	–	–	**193,626**	–	–	–	–	**193,626**
Available-for-sale investment securities	7,086	–	–	**7,086**	–	–	–	–	**7,086**
Loans to customers	44,984	8,982	48,147	**102,113**	128,563	4,660	133,223	3,084	**238,420**
Investments in associates	–	–	–	**–**	–	–	–	802	**802**
Investments in car leasing joint venture	–	–	–	**–**	–	–	–	456	**456**
Other assets	129	–	–	**129**	–	–	–	–	**129**
Total assets	**359,733**	**9,687**	**48,963**	**418,383**	**128,964**	**5,044**	**134,008**	**4,586**	**556,977**
Liabilities									
Due to the CBR	42,618	–	–	**42,618**	–	–	–	–	**42,618**
Due to banks	143,576	202	1,126	**144,904**	255	37	292	–	**145,196**
Due to customers	77,993	64,615	74,750	**217,358**	36,787	–	36,787	22,322	**276,467**
Debt securities issued	73	188	7,608	**7,869**	653	252	905	–	**8,774**
Other borrowed funds	–	–	485	**485**		15,206	15,206	–	**15,691**
Subordinated debt	–	–	–	**–**	1,484	–	1,484	–	**1,484**
Other liabilities	2,215	–	–	**2,215**	–	–		–	**2,215**
Total liabilities	**266,475**	**65,005**	**83,969**	**415,449**	**39,179**	**15,495**	**54,674**	**22,322**	**492,445**
Net position as at 31 December 2016	**93,258**	**(55,318)**	**(35,006)**	**2,934**	**89,785**	**(10,451)**	**79,334**	**(17,736)**	**64,532**
Cumulative gap at 31 December 2016	**93,258**	**37,940**	**2,934**	**2,934**	**92,719**	**82,268**	**79,334**	**64,532**	**–**
Credit-related commitments	**34,552**	**14,023**	**24,091**	**72,666**	**50,384**	**–**	**50,384**	**–**	**123,050**

37. Risk management (continued)

Liquidity and funding risk (continued)

The following table shows the monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2015:

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Sub total less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Sub total more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	52,528	–	–	**52,528**	–	–	**–**	–	**52,528**
Mandatory cash balances with the CBR	122	136	258	**516**	338	–	**338**	43	**897**
Placements with banks	2,465	622	6,431	**9,518**	–	14,223	**14,223**	–	**23,741**
Financial instruments at fair value through profit or loss:									
- held by the Group	36,854	–	–	**36,854**	–	–	**–**	–	**36,854**
- pledged under repurchase agreements	141,959	24,819	3,175	**169,953**	–	–	**–**	–	**169,953**
Available-for-sale investment securities	2,631	–	–	**2,631**	–	–	**–**	–	**2,631**
Loans to customers	26,954	6,354	46,382	**79,690**	87,204	3,702	**90,906**	4,613	**175,209**
Investments in associates	–	–	–	**–**	–	–	**–**	1,208	**1,208**
Investments in car leasing joint venture	–	–	–	**–**	–	–	**–**	486	**486**
Other assets	179	–	–	**179**	–	–	**–**	–	**179**
Total assets	**263,692**	**31,931**	**56,246**	**351,869**	**87,542**	**17,925**	**105,467**	**6,350**	**463,686**
Liabilities									
Due to the CBR	124,807	57,577	3,345	**185,729**	326	–	**326**	–	**186,055**
Due to banks	32,961	558	–	**33,519**	–	44,850	**44,850**	–	**78,369**
Due to customers	19,812	22,015	41,839	**83,666**	54,787	–	**54,787**	6,967	**145,420**
Debt securities issued	100	691	1,747	**2,538**	145	378	**523**	–	**3,061**
Other borrowed funds	–	–	–	**–**	–	14,225	**14,225**	–	**14,225**
Subordinated debt	–	–	–	**–**	–	6,958	**6,958**	–	**6,958**
Other liabilities	1,901	–	–	**1,901**	–	–	**–**	–	**1,901**
Total liabilities	**179,581**	**80,841**	**46,931**	**307,353**	**55,258**	**66,411**	**121,669**	**6,967**	**435,989**
Net position as at 31 December 2015	**84,111**	**(48,910)**	**9,315**	**44,516**	**32,284**	**(48,486)**	**(16,202)**	**(617)**	**27,697**
Cumulative gap as at 31 December 2015	**84,111**	**35,201**	**44,516**	**44,516**	**76,800**	**28,314**	**(16,202)**	**27,697**	**–**
Credit-related commitments	**17,401**	**6,254**	**6,819**	**30,474**	**14,307**	**–**	**14,307**	**–**	**44,781**

The tables presented above show assets (with exception for securities included in financial instruments at fair value through profit or loss) and liabilities of the Group by their remaining contractual maturity as at 31 December 2016 and 2015. As at 31 December 2016 and 2015, securities included in financial instruments at fair value through profit or loss are shown in the Less than 1 month category because Management believes that all of these financial instruments could be sold within one month in the normal course of business or the Group could pledge these financial instruments as collateral for loans from the CBR.

The values in all the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

According to Russian legislation, term deposits of individuals may be withdrawn before maturity. However, Management believes that despite this option and that a substantial portion of customer accounts are on demand, diversification of these current accounts and deposits by number, type of clients, as well as the past experience of the Group, indicate that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn credit line facilities with the CBR. Accordingly, the Group estimates that the liquidity gaps in the tables above will be covered by the balances of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

37. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from deficiencies or errors in internal processes, human error, fraud or external events.

The Group is exposed to the following principal operational risks:

- IT systems and robustness: the risk of financial loss resulting from insufficient IT solution development, implementation or maintenance processes. The robustness of IT solutions and their permanent availability to the Group's customers and employees are of crucial importance for the Group
- Information security: the risk of data leakage, loss or theft. The overall market level of this risk is growing rapidly due to increasingly sophisticated fraudulent actions and mobility of criminals
- Third-party and in-house fraud: the risk that the Group and/or its customers will incur a financial loss as a result of third-party or in-house fraud
- Customer servicing: the risk that new issues will arise or control deficiencies and weaknesses will be identified in existing processes that the Group's customers face as the business continues to evolve.

The Group operates in a robust control environment. It regularly analyses and reviews the control process and makes appropriate investments. The Group has made significant investments in the IT infrastructure and systems to ensure their resilience and improve their functions, as the continuity of service to customers is exceptionally important for the Group. The Group continues to invest in IT systems and tools to ensure information security of the control environment, including user access and account management to address evolving threats.

In order to identify and prevent third-party and in-house fraud, the Group applies a risk-based approach considering existing and emerging third-party and in-house fraud risks. Additionally, the Group is implementing an annual program for enhancing the technology, processes and manual controls with an emphasis on preventing and detecting fraud in real time. The Group has developed an efficient and robust fraud identification and prevention operating model, including Group-wide policies and operational controls.

Significant operational risks are regularly reported to appropriate committees and are communicated to senior management. The risks are managed through a range of strategies: prevention, mitigation, transfer (including insurance), and acceptance of risks.

38. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operational and financial decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (Note 13) was as follows:

	2016 RUB MM	***2015 RUB MM***
Members of the Supervisory Board	75	178
Management Board	757	473
	832	**651**

38. Related party transactions (continued)

Outstanding balances with related parties as at 31 December 2016 were as follows:

	Shareholders of Parent Group RUB MM*	*Joint venture** RUB MM*	*Key management personnel*** RUB MM*	*Other related parties RUB MM*	*Total RUB MM*
Loans, gross	**1,688**	**1,829**	**460**	**3,688**	**7,665**
Less: allowance for impairment	–	–	–	(42)	(42)
Loans, net	**1,688**	**1,829**	**460**	**3,646**	**7,623**
Deposits	**–**	**–**	**343**	**1,212**	**1,555**
Financial instruments at fair value through profit or loss	**2,566**	**–**	**–**	**–**	**2,566**
Current accounts	**15**	**5**	**236**	**251**	**507**
Other borrowed funds	**–**	**–**	**485**	**–**	**485**
Subordinated debt	**1,484**	**–**	**–**	**–**	**1,484**
Other liabilities	**–**	**–**	**954**	**–**	**954**
Guarantees received	–	1,854	–	11,957	**13,811**

* The sole shareholder of the parent group is SovCo Capital Partners N.V. (Note 1).

** The joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake business activity which is under joint control with LLC Sollers-Finance.

*** Key management personnel are those with the authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

Outstanding balances with related parties as at 31 December 2015 were as follows:

	Shareholders of Parent Group RUB MM*	*Joint venture** RUB MM*	*Key management personnel*** RUB MM*	*Other related parties RUB MM*	*Total RUB MM*
Loans, gross	**–**	**560**	**355**	**1,213**	**2,128**
Less: allowance for impairment	–	(7)	(9)	(9)	**(25)**
Loans, net	**–**	**553**	**346**	**1,204**	**2,103**
Deposits	**–**	**–**	**363**	**1,012**	**1,375**
Financial instruments at fair value through profit or loss	**1,477**	**–**	**–**	**–**	**1,477**
Current accounts	**104**	**3**	**73**	**42**	**222**
Subordinated debt****	**6,958**	**–**	**–**	**–**	**6,958**
Other liabilities	**–**	**–**	**398**	**–**	**398**
Guarantees received	–	433	200	1,470	**2,103**

* The sole shareholder of the parent group is SovCo Capital Partners N.V. (Note 1).

** The joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake business activity which is under joint control with LLC Sollers-Finance.

*** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

**** In July 2016, the Bank entered into an addendum to the agreement on the subordinated loan received from SovCo Capital Partners N.V., which introduced changes to its terms and provisions. As at 31 December 2016, in accordance with the new terms, the Group classified this loan in equity as a perpetual subordinated loan (Note 31).

38. Related party transactions (continued)

Transactions with related parties which are included in the consolidated statement of profit or loss for the year ended 31 December 2016 are presented in the table below:

	Shareholders of Parent Group RUB MM*	*Joint venture** RUB MM*	*Key management personnel*** RUB MM*	*Other RUB MM*	*Total RUB MM*
Interest income	171	178	39	419	**807**
Interest income on financial instruments designated at fair value through profit or loss	103	–	–	–	**103**
Interest expenses on deposits	–	–	(34)	(115)	**(149)**
Interest expenses on subordinated debt	(559)	–	–	–	**(559)**
Allowance for loan impairment	–	7	9	(33)	**(17)**
Fee and commission income	2	3	2	8	**15**
Gains less losses from foreign currencies	352	–	9	(132)	**229**

* The sole shareholder of the parent group is SovCo Capital Partners N.V. (Note 1).

** The joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake business activity which is under joint control with LLC Sollers-Finance.

*** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

Transactions with related parties which are included in the consolidated statement of profit or loss for the year ended 31 December 2015 are presented in the table below:

	Shareholders of Parent Group RUB MM*	*Joint venture** RUB MM*	*Key management personnel*** RUB MM*	*Other RUB MM*	*Total RUB MM*
Interest income	4	53	42	119	**218**
Interest expenses on deposits	(3)	–	(22)	(80)	**(105)**
Interest expense on subordinated debt	(816)	–	–	–	**(816)**
Allowance for loan impairment	–	5	(42)	(13)	**(50)**
Fee and commission income	1	–	1	1	**3**
Gains less losses from foreign currencies	–	–	(4)	–	**(4)**
Other income	–	–	2	–	**2**
General and administrative expenses	–	–	(2)	–	**(2)**

* The sole shareholder of the parent group is SovCo Capital Partners N.V. (Note 1).

** The joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake business activity which is under joint control with LLC Sollers-Finance.

*** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

39. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in a forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

39. Fair value of financial instruments (continued)

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Fair value measurement using			
31 December 2016	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	33,625	251,593	–	**285,218**
Available-for-sale investment securities	–	–	7,086	**7,086**
Investment property	–	–	288	**288**
Property, equipment and intangible assets	–	–	1,092	**1,092**
Assets for which fair values are disclosed				
Cash and cash equivalents	21,465	–	–	**21,465**
Mandatory cash balances with the CBR	–	–	3,017	**3,017**
Placements with banks	–	48	319	**367**
Loans to customers	–	39,778	200,012	**239,790**
Other assets	–	–	1,872	**1,872**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	42,618	**42,618**
Due to banks	–	–	145,196	**145,196**
Due to customers	–	–	277,708	**277,708**
Debt securities issued	–	7,201	1,596	**8,797**
Other borrowed funds	–	–	15,691	**15,691**
Subordinated debt	–	–	1,484	**1,484**
Other liabilities	–	–	5,797	**5,797**

	Fair value measurement using			
31 December 2015	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	7,850	198,957	–	**206,807**
Available-for-sale investment securities	–	2,631	–	**2,631**
Assets for which fair values are disclosed				
Cash and cash equivalents	52,528	–	–	**52,528**
Mandatory cash balances with the CBR	–	–	897	**897**
Placements with banks	–	2,439	21,282	**23,721**
Loans to customers	–	16,239	158,917	**175,156**
Other assets	–	–	1,366	**1,366**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	186,055	**186,055**
Due to banks	–	–	78,369	**78,369**
Due to customers	–	–	147,032	**147,032**
Debt securities issued	986	–	2,037	**3,023**
Other borrowed funds	–	–	14,225	**14,225**
Subordinated debt	–	–	6,958	**6,958**
Other liabilities	–	–	3,257	**3,257**

39. Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss

Trading securities valued using valuation models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities, which are recorded at fair value:

	At 1 January 2016	*Gains/ (losses) recorded in profit or loss*	*Gains/ (losses) recorded in other compre-hensive income*	*Purchases*	*Sales*	*Settlements*	*Transfers from Level 1 and Level 2*	*At 31 December 2016*
Financial assets								
Financial instruments at fair value through profit or loss	–	(7,143)	–	5,659	(726)	–	2,210	**–**
Available-for-sale investment securities	–	149	1,985	2,321	–	–	2,631	**7,086**
Total Level 3 financial assets	**–**	**(6,994)**	**1,985**	**7,980**	**(726)**	**–**	**4,841**	**7,086**

During the year ended 31 December 2015, the Group had no transfers of financial instruments from Level 1 and Level 2 to Level 3 of the fair value hierarchy.

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	2016			*2015*		
	Realised gains/(losses) RUB MM	*Unrealised gains/(losses) RUB MM*	*Total RUB MM*	*Realised gains/(losses) RUB MM*	*Unrealised gains/(losses) RUB MM*	*Total RUB MM*
Total gains/(losses) recognised in profit or loss	554	(7,548)	**(6,994)**	–	–	**–**

Effect of changes in significant unobservable inputs on the measurement of financial instruments categorised within Level 3 of the fair value hierarchy

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

31 December 2016	*Carrying amount RUB MM*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average value)*
Financial instruments at fair value through profit or loss				
Finance	–	Discounted cash flows	Credit risk of the issuer	100%
Available-for-sale investment securities				
Equity securities				
Finance	4,888	Value of net assets	Net assets	Not applicable
Electronics	1,687	Value of net assets	Net assets	Not applicable
Energy	400	Value of net assets	Net assets	Not applicable
Other	111	Value of net assets	Net assets	Not applicable
Investment property	288	Comparative and income approach	Discount for sale	10%
Property, equipment and intangible assets	1,092	Comparative and income approach	Discount for sale	10%

39. Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss (continued)

Transfers between Level 1 and Level 2

The following tables show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value during 2016 and 2015:

	2016 *RUB MM*	*2015* *RUB MM*
Financial instruments at fair value through profit or loss		
Bonds of companies with State participation	787	932
State and municipal bonds	655	–
Corporate bonds	533	–
Total transferred from Level 1 to Level 2	**1,975**	**932**

The financial assets presented above were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and their fair values were consequently obtained through valuation techniques using observable market inputs.

	2016 *RUB MM*	*2015* *RUB MM*
Financial instruments at fair value through profit or loss		
State and municipal bonds	5,602	–
Corporate bonds	1,910	–
Bonds of companies with State participation	1,053	–
Corporate shares	818	–
Total transferred from Level 2 to Level 1	**9,383**	**–**

The financial instruments presented above were transferred from Level 2 to Level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market.

Fair values of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2016	*Fair value 2016*	*Unrecognised gain/(loss) 2016*	*Carrying amount 2015*	*Fair value 2015*	*Unrecognised gain/(loss) 2015*
Financial assets						
Cash and cash equivalents	21,465	21,465	–	52,528	52,528	–
Mandatory cash balances with the CBR	3,017	3,017	–	897	897	–
Placements with banks	384	367	(17)	23,741	23,721	(20)
Loans to customers	238,420	239,790	1,370	175,209	175,156	(53)
Other assets	1,872	1,872	–	1,366	1,366	–
Financial liabilities						
Due to the CBR	42,618	42,618	–	186,055	186,055	–
Due to banks	145,196	145,196	–	78,369	78,369	–
Due to customers	276,467	277,708	(1,241)	145,420	147,032	(1,612)
Debt securities issued	8,774	8,797	(23)	3,061	3,023	38
Other borrowed funds	15,691	15,691	–	14,225	14,225	–
Subordinated debt	1,484	1,484	–	6,958	6,958	–
Other liabilities	5,797	5,797	–	3,257	3,257	–
Total unrecognised change in fair value			**89**			**(1,647)**

The following describes the methods and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the financial statements.

Cash and accounts with the CBR

The carrying amount of cash and accounts with the CBR approximates their fair value due to the relatively short-term maturity of these financial instruments.

39. Fair value of financial instruments (continued)

Placements with banks and Due to banks

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their carrying amount approximates their fair value.

Loans and advances to customers

The estimate was made by discounting scheduled future cash flows of the individual loans with estimated maturities using prevailing market rates as of the respective year end.

Debt securities issued

The fair value of debt securities issued is determined on the basis of the available market prices of bonds issued at the year end.

Due to customers

The estimate was made by discounting scheduled future cash flows through the estimated maturity using prevailing market rates as of the respective year-end.

40. Business combinations and disposal of subsidiaries

Financial rehabilitation of “Express-Volga Bank” JSC

On 12 August 2015, the CBR revoked the banking license from “Probusinessbank” JSC, which was the parent of Life Financial Group based in Russia. In addition to the parent bank, Life Group also included “VUZ-Bank” JSC, “Natsionalny Bank Sberezheny” JSC, “Gazenergobank” JSC, “Poidem!” JSC, “Solidarnost” JSC and “Express-Volga Bank” JSC (“EVB”).

In accordance with a decision of the CBR, EVB was placed into temporary administration by the DIA which fully controlled its operations and performed day-to-day management from 12 August 2015 through 12 February 2016 inclusive. During this period, the authority of EVB’s management bodies, including the Chairman of the Management Board, Management Board, Board of Directors and shareholders, was suspended. All decisions were made by the temporary administrator by the prior approval of the DIA.

The DIA chose Sovcombank to act as an investor in EVB as a result of a tender, which took place on 21 September 2015.

Pre-investment financial due diligence of EVB, which was carried out in August-September 2015 independently by the DIA, a third-party advisor (a “Big 4” firm) and Sovcombank, enabled the Group to analyse EVB’s operational and credit risks, examine its business model and prepare a detailed plan for EVB’s financial rehabilitation and integration into Sovcombank’s operations. Participating in the rehabilitation of EVB allows Sovcombank to simultaneously accomplish the following strategic objectives:

- Increase profit through enhanced operating efficiency resulting from economies of scale and the immediate entry into new regions with near-zero deployment costs
- Ensure healthy growth in the consumer loan portfolio at a comfortable level of credit risk
- Diversify its funding through EVB’s portfolio of low-cost deposits, while also raising funds from the DIA for 10 years at 0.51% (please see below) and using that funding to hedge the interest rate risk
- Gain a profitable cash settlement business servicing approximately 30,000 SME customers and pass on EVB’s SME know-how to Sovcombank.

On 23 September 2015, the DIA provided Sovcombank with a loan of RUB 49,850 MM bearing an interest rate of 0.51% and maturing on 23 September 2025. The purpose of the loan was to implement bankruptcy prevention measures in respect of EVB in accordance with the financial rehabilitation plan approved by the Board of Directors of the Bank of Russia on 12 August 2015 (the “DIA Loan”).

The DIA Loan was issued to Sovcombank at 0.51% p.a., i.e. significantly below market rates. According to IAS 39, loans issued at interest rates other than market interest rates are measured at the date of issuance at fair value, which includes future interest payments and principal debt discounted at market interest rates. As at the date of issuance of the DIA Loan, the market interest rate paid by Sovcombank for similar loans was 14.9%. The fair value of the DIA Loan of RUB 14,225 MM was recorded as “Other borrowed funds”. As at 31 December 2016, after Sovcombank partially repaid the loan received from the DIA, its carrying amount was RUB 15,206 MM.

40. Business combinations and disposal of subsidiaries (continued)

Financial rehabilitation of “Express-Volga Bank” JSC

On 23 September 2015, Sovcombank issued a RUB 49,850 MM loan to EVB on terms that were reciprocal to those of the DIA loan issued to Sovcombank. RUB 14,225 MM of Sovcombank’s loan issued to EVB was recorded at fair value as “Placements with banks”.

On 4 December 2015, Sovcombank acquired 100% of the additional issue of EVB shares for RUB 50 MM, i.e. over 99.99% of EVB’s shares (following a decrease in EVB’s equity to RUB 1 earlier in Q4 2015). Despite the acquisition of a controlling stake in EVB, Sovcombank only became EVB’s ultimate controlling party on 13 February 2016 (the “date of acquisition”), after the authority of the DIA’s temporary administrator expired and an Extraordinary General Meeting of Shareholders appointed new management from candidates proposed by Sovcombank.

On 29 September 2016, Sovcombank purchased the remaining EVB shares, thus acquiring a 100% stake and becoming the sole shareholder of the bank.

Fair value of Express-Volga Bank’s identifiable net assets and liabilities

	RUB MM
Assets	
Cash and cash equivalents	2,739
Mandatory cash balances with the CBR	443
Placements with banks	475
Financial instruments at fair value through profit or loss	78,201
Loans to customers	4,038
Deferred tax asset	431
Property and equipment and intangible assets	280
Other assets	172
Total assets	**86,779**
Liabilities	
Due to the CBR	12,512
Due to banks	63,350
Due to customers	38,793
Debt securities issued	7
Other liabilities	197
Total liabilities	**114,859**
Identifiable net liabilities	**(28,080)**
Profit from a bargain purchase	
Transferred consideration	29,727
Identifiable net liabilities	(28,080)
Bargain purchase gain (Note 11)	**1,647**

The decrease in market interest rates during the period from 23 September 2015 through the date of the business combination resulted in a change in the fair value of the loan provided by Sovcombank to EVB and in the recognition by the Group of a RUB 2,306 MM gain on the settlement of the pre-existing relationship which EVB and the Group had as at the transaction date (Note 11).

Acquisition of “Metcombank” JSC

On 7 October 2016 (the “date of acquisition”), after respective approvals from the Federal Antimonopoly Service and the Central Bank of Russia were received, the Group acquired 100% of the voting shares in “Metcombank” JSC (“Metcombank”) from Severgroup.

Severgroup includes the holding companies “Severgroup” JSC and “Capital” LLC. Severgroup’s main business activities are metallurgy and mining, power plant engineering, gold mining, woodworking, tourism, wholefood e-commerce, etc. Severgroup’s main assets are metallurgical and mining groups Severstal and Nord Gold.

The Bank’s main reasons for the acquisition were Metcombank’s strong expertise in issuing car loans, the high quality of its car loan portfolio, and significant synergies with the Bank.

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of "Metcombank" JSC (continued)

Fair value of Metcombank's identifiable net assets and liabilities

The Bank determined the fair value of Metcombank's identifiable net assets and liabilities and the value obtained fully incorporates all the available information as required by IFRS 3 *Business Combinations.* The fair values of Metcombank's identifiable net assets and liabilities as at the date of acquisition were as follows:

	RUB MM
Assets	
Cash and cash equivalents	6,818
Mandatory cash balances with the CBR	234
Financial instruments at fair value through profit or loss	4,320
Loans to customers	21,906
Property and equipment and intangible assets	113
Deferred tax asset	326
Other assets	145
Total assets	**33,862**
Liabilities	
Due to banks	3,507
Due to customers	26,696
Debt securities issued	163
Subordinated debt	1,015
Other liabilities	245
Total liabilities	**31,626**
Identifiable net assets	**2,236**

	RUB MM
Transferred consideration	(2,242)
Metcombank's identifiable net assets as at the date of acquisition	2,236
Goodwill arising on acquisitions	**(6)**

Metcombank's consolidated profit and loss statement for the 4th quarter

Between the date of the acquisition and 31 December 2016, Metcombank's profit was RUB 226 MM. The profit was included in the Group's consolidated statement of comprehensive income for the twelve months ended 31 December 2016:

	RUB MM
Interest income	1,016
Interest expense	(593)
Net interest income	**423**
Allowance for loan impairment	139
Net interest income after allowance for loan impairment	**562**
Fee and commission income	215
Fee and commission expense	(172)
Net fee and commission income	**43**
Net gain on financial instruments at fair value through profit or loss	35
Net foreign exchange gain	2
Other operating income	37
Operating income	**679**
Personnel expenses	(277)
Other general and administrative expenses	(122)
Profit before income tax expense	**280**
Income tax expense	(54)
Profit for the period	**226**

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of "RTS-Tender" LLC

On 7 October 2016 (the "date of acquisition"), after respective approvals from the Federal Antimonopoly Service and the Central Bank of Russia were received, the Group acquired 100% of the voting shares in "RTS-Tender" LLC ("RTS-Tender") from Association of Financial Market Participants Non-Profit Partnership for the Development of the Financial Market RTS (hereinafter "Association NP RTS" or "NP RTS").

Association NP RTS represents about 90 professional financial market players and was established to create a platform for OTC securities trading. One of Association NP RTS' projects was the RTS-Tender electronic platform operating in the state, municipal and corporate procurement sector.

RTS-Tender is one of the five federal electronic platforms operating in the State and municipal procurement segment regulated by the Federal Law No. 44-FZ *On the Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ *On the Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

This investment allowed the Group to gain access to over 200,000 entities accredited on the RTS-Tender platform, thus expanding the Group's opportunities to support the full operating cycle of companies working in the state procurement market.

RTS-Tender's identifiable net assets and liabilities

The Bank determined the fair value of RTS-Tender's identifiable net assets and liabilities and the value obtained fully incorporates all the available information as required by IFRS 3 *Business Combinations.* The fair values of RTS-Tender's identifiable net assets and liabilities as at the date of acquisition were as follows:

	RUB MM
Assets	
Cash and cash equivalents	9,738
Financial instruments at fair value through profit or loss	313
Property, equipment and intangible assets	1,651
Other assets	70
Total assets	**11,772**
Liabilities	
Due to customers	10,124
Deferred tax liability	230
Other liabilities	80
Total liabilities	**10,434**
Identifiable net assets	**1,338**

	RUB MM
Transferred consideration	(1,923)
LLC RTS-Tender's identifiable net assets as at the date of acquisition	1,338
Goodwill arising on acquisitions	**(585)**

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of LLC RTS-Tender (continued)

RTS-Tender's consolidated profit and loss statement for the 4th quarter

Between the date of the acquisition and 31 December 2016, RTS-Tender's profit was RUB 42 MM. The profit was included in the Group's consolidated statement of comprehensive income for the twelve months ended 31 December 2016:

	RUB MM
Interest income	309
Interest expense	–
Net interest income	**309**
Allowance for loan impairment	(10)
Net interest income after allowance for loan impairment	**299**
Fee and commission income	52
Fee and commission expense	(17)
Net fee and commission income	**35**
Net loss on financial instruments at fair value through profit or loss	(54)
Net foreign exchange loss	(2)
Other operating income	6
Operating income	**284**
Personnel expenses	(152)
Other general and administrative expenses	(81)
Profit before income tax expense	**51**
Income tax expense	(9)
Profit for the period	**42**

Acquisition of "Garanti Bank – Moscow" JSC

On 5 December 2016 (the "date of acquisition"), after respective approvals from the Federal Antimonopoly Service and the Central Bank of Russia were received, the Group acquired 100% of the voting shares in CB Garanti Bank – Moscow (JSC) ("GBM") from Turkiye Garanti Bankasi Anonim Sirketi (Turkey) and Garanti Bilisim Teknlojici ve Ticaret T.A.S. (Turkey), which belong to the Banco Bilbao Vizcaya Argentaria S.A. (Spain) group of companies.

Banco Bilbao Vizcaya Argentaria S.A. is one of the largest banking groups in the European Union, with headquarters in Bilbao, Spain.

The Bank's main reasons for the acquisition were the target's very high quality of assets, world class internal procedures, significant expertise in relations with international companies and financial institutions, as well as the bargain purchase price.

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of "Garanti Bank – Moscow" JSC (continued)

"Garanti Bank – Moscow" JSC's identifiable net assets and liabilities

The Bank determined the fair value of "Garanti Bank – Moscow" JSC's identifiable net assets and liabilities and the value obtained fully incorporates all the available information as required by IFRS 3 *Business Combinations.* The fair values of "Garanti Bank – Moscow" JSC's identifiable net assets and liabilities as at the date of acquisition were as follows:

	RUB MM
Assets	
Cash and cash equivalents	1,839
Mandatory cash balances with the CBR	23
Financial instruments at fair value through profit or loss	3,082
Loans to customers	21
Investment property (Note 23)	218
Property, equipment and intangible assets	358
Deferred tax asset	15
Other assets	27
Total assets	**5,583**
Liabilities	
Due to banks	1,155
Due to customers	1,268
Other liabilities	22
Total liabilities	**2,445**
Identifiable net assets	**3,138**

	RUB MM
Transferred consideration	(2,464)
"Garanti Bank – Moscow" JSC's identifiable net assets as at the date of acquisition	3,138
Bargain purchase gain (Note 11)	**674**

"Garanti Bank – Moscow" JSC's consolidated profit and loss statement for 1 month

Between the date of the acquisition and 31 December 2016, "Garanti Bank – Moscow"'s loss was RUB 150 MM. The loss was included in the Group's consolidated statement of comprehensive income for the twelve months ended 31 December 2016:

	RUB MM
Interest income	6
Interest expense	(1)
Net interest income	**5**
Allowance for loan impairment	3
Net interest income after allowance for loan impairment	**8**
Fee and commission income	2
Fee and commission expense	(1)
Net fee and commission income	**1**
Net gain on financial instruments at fair value through profit or loss	28
Net foreign exchange loss	(1)
Recovery of other impairment and provisions	9
Other operating income	2
Operating income	**47**
Personnel expenses	(213)
Other general and administrative expenses	(16)
Loss before income tax expense	**(182)**
Income tax expense	32
Loss for the period	**(150)**

Disclosure of the Group's income or expenses as though the acquisition date for all business combinations that occurred during the year had been the date of the beginning of the reporting period would be impracticable, since it would require significant estimates.

41. Goodwill

Goodwill recorded in the Group's balance sheet is tested for impairment at least annually as required by IAS 36 *Impairment of Assets*.

Goodwill acquired through combinations of assets with indefinite lives was allocated to one cash-generating unit (Retail Banking).

The carrying amount of goodwill and its changes were allocated to cash-generating units as follows:

	Retail banking RUB MM
Goodwill at 31 December 2014	**284**
Acquisitions through business combinations	685
Impairment	**(605)**
Goodwill at 31 December 2015	**364**
Acquisitions through business combinations	593
Impairment	(229)
Goodwill at 31 December 2016	**728**

Identified impairment of goodwill relates to the repayment of loan portfolios acquired by the Group following the acquisition of LLC "Creditny Ostrov Primorye" in March 2008.

42. Capital adequacy

The Group manages its capital in accordance with Russian legislation and the requirements of the Central Bank of Russia at the level of each bank within the Group. The Group maintains an actively managed capital base to cover risks inherent in the Group's business, the dominant asset of which is the Bank.

The Bank's capital adequacy is monitored using, among other measures, ratios established by the Basel Capital Accord of 1988 and ratios established by the CBR.

The primary objective of capital management is to monitor compliance of the Bank's capital with the CBR's requirements and to maintain strong credit ratings and capital ratios to continue the Bank's operations and maximise shareholder value.

The CBR's capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAS (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting standards).

As at 31 December 2016 and 2015, the Bank's standalone capital adequacy ratio exceeded the statutory minimum established by the CBR.

The capital adequacy ratio under the Basel Capital Accord of 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord of 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2016 and 2015, was:

	2016	***2015***
Tier 1 capital	55,634	26,739
Tier 2 capital	14,445	13,412
Total capital	**70,079**	**40,151**
Risk weighted assets	**438,307**	**353,491**
Tier 1 capital ratio	12.7%	7.6%
Total capital ratio	16.0%	11.4%

43. Principal consolidated subsidiaries, associates and joint ventures

The table below contains the principal consolidated subsidiaries, associates and joint ventures of the Group as at 31 December 2016 and 31 December 2015:

		Voting rights	
	Relationship	***31 December 2016***	***31 December 2015***
“Sovremenny Kommerchesky Ipotechny Bank” LLC	Subsidiary	50.01%	55.00%
“Silhouette” JSC	Subsidiary	50.01%	55.00%
“AeroPlaza” LLC	Subsidiary	100.00%	100.00%
"Metcombank” JSC	Subsidiary	100.00%	−
“Garanti Bank – Moscow” JSC	Subsidiary	100.00%	−
“Express-Volga Bank” JSC	Subsidiary	100.00%	−
“RTS-Tender” LLC	Subsidiary	100.00%	−
KOMANA HOLDINGS LIMITED	Subsidiary	100.00%	100.00%
“Sollers-Finance” LLC	Joint venture	50.00%	50.00%
“Kostromskoy Zavod Avtokomponentov” JSC	Associate	49.60%	49.60%
“Cbonds.ru” LLC	Associate	24.90%	24.90%
“Shatalet” LLC	Associate	49.00%	49.00%

44. Investments in associates

Acquisition of “Shatalet” LLC

In March 2015, Sovcombank acquired a 49% stake in “Shatalet” LLC from a related party for RUB 1,050 MM. The principal asset of “Shatalet” LLC is the Orekh Trade and Entertainment Center (“Orekh”) totalling 26,000 sq. m located in the center of Orekhovo-Zuevo, Moscow Region.

According to a report prepared by a major international appraiser of commercial real estate dated February 2015, the value of Orekh was RUB 3,886 MM.

Due to an overall decline in retail sales in the Russian Federation and a continuous decline in rental fees for trading areas in 2015-2016, the Bank’s management decided to impair its investment in “Shatalet” LLC by RUB 656 MM, of which RUB 325 MM was recorded as “Other impairment and provisions” in the consolidated statement of comprehensive income for 2016 (Note 15).

The Group recognised the investment in “Shatalet” LLC of RUB 394 MM as “Investments in associates” in the consolidated statement of financial position as at 31 December 2016.

45. Subsequent events

Partial early repayment of the loan issued by the DIA for EVB’s financial rehabilitation

In January 2017, Sovcombank repaid back to the DIA RUB 1,385 MM, a part of the loan issued by the DIA to Sovcombank for EVB’s financial rehabilitation. In the course of bankruptcy procedures carried out by the DIA in respect of “Probusinessbank” JSC, the DIA recovered a part of “Probusinessbank”‘s debt to EVB. “Probusinessbank” returned these funds to Sovcombank, which in its turn, repaid the respective amount to the DIA.

Acquisition of portfolio of mortgage loans issued to individuals

On 23 January 2017, the Bank completed a transaction to acquire a RUB 16 BN retail loan portfolio from “Nordea Bank” JSC. This loan portfolio mainly consists of mortgages issued to individuals.

“Nordea Bank” JSC is part of Nordea banking group, one of the largest banking groups in the European Union, with headquarters in Stockholm, Sweden. The main reasons for the acquisition of the portfolio were the very high quality of the acquired assets and the bargain purchase price.

Dividends

In February and March 2017, the Bank paid dividends of RUB 2,300 MM in accordance with resolutions of the sole shareholder of Sovcombank.

45. Subsequent events (continued)

Merger of “Metcombank” JSC with PJSC Sovcombank

On 12 December 2016, the sole shareholder of Sovcombank, Sovco Capital Partners N.V., approved a decision to legally merge “Metcombank” JSC with Sovcombank to simplify the structure and save the Group’s expenses. The operational integration of the two banks was completed in the 1Q2017 and the legal merger was executed on 27 March 2017. After Metcombank merged with Sovcombank, its banking license was cancelled by the CBR at Sovcombank’s request. All of Metcombank’s legal rights and oblications were transferred to Sovcombank.

Receipt of a subordinated loan

The Bank received a subordinated loan of USD 22.8 MM from Sovco Capital Partners N.V. on 28 March 2017.

In addition, in March 2017, Sovcombank and Sovco Capital Partners N.V. renegotiated the subordinated loan agreement and, as the terms of the agreement have changed significantly, the loan no longer qualifies as an equity component as envisaged by IAS 32 *Financial Instruments: Presentation.* After the renegotiation, the Group reclassified the subordinated loan of USD 94.4 MM to liabilities.