Independent auditor's report
on the financial statements of
JSC RN Bank
for 2016

March 2017

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Independent auditor's report

To the Shareholders of Joint Stock Company RN Bank,
Board of Directors of Joint Stock Company RN Bank

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Joint Stock Company RN Bank, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for 2016, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Allowance for loan impairment

The estimates of the allowance for impairment of loans issued is a key area of judgment for the Bank's management. The identification of impairment and the determination of the recoverable amount require a high level of subjectivity, use of assumptions and analysis of various factors. The Bank's management approach to assessing and managing credit risk is described in Note 21 to the financial statements.

The use of various models and assumptions could significantly affect the estimates of the allowances for impairment of loans issued. Due to the significance of the loans issued, which account for 89% of total assets, and due to fact that the estimation of the allowance involves the use of subjective judgments,the estimation of the allowance for impairment of loans was one of the key audit matters.

We focused on the need to identify indicators of impairment, which differ depending on the type of credit product type and client, and checked the loan portfolio segregation in individually impaired and not individually impaired loans. We analyzed the methodology for the valuation of the amount of allowance on the basis of the collective impairment assessment, including with respect to the loans issued under factoring transactions and the car loans to individuals due to significant amounts and potential effect of changes in assumptions.

Our audit procedures included testing of controls over the process of issuing loans to individuals and legal entities, testing of initial data, analysis of assumptions used by the Bank to perform collective assessment for impairment, and the assessment of adequacy of allowances for individually impaired loans issued. In the course of our audit procedures, we analyzed the consistency of the management assumptions used to assess the economic factors and statistical information on losses incurred and amounts recovered.

We reviewed the information disclosed in Notes 8 and 21 to the financial statements for completeness and compliance with International Financial Reporting Standards.

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Other information included in the Bank's 2016 Annual report

Other information consists of the information included in the Bank's 2016 Annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Board of Directors for the financial statements

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

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

The Board of Director are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Management of the Bank is responsible for the compliance of the Bank 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 organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the 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 Bank's financial statements for the year ended 31 December 2016, we determined:

1) Whether the Bank complied as at 1 January 2017 with the obligatory ratios established by the Bank of Russia.
2) Whether internal control and organization of the risk management systems of the Bank 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 authorized 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 Board of Directors 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.

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

We found that the values of the obligatory ratios of the Bank 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 Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

Conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- 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 Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant 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 stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also 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.
- We found that, as at 31 December 2016, the authority of the Board of Directors 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 Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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The procedures pertaining to the internal control and organization 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 organization 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.

O.V. YOUSHENKOV
Partner
Ernst & Young LLC

29 March 2017

Details of the audited entity

Name: Joint Stock Company RN Bank
Record made in the State Register of Legal Entities on 6 November 2002, State Registration Number 1025500003737.
Address: Russia 109028, Moscow, Serebryanicheskaya nab., 29.

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 nab., 77, bld. 1.
Ernst & Young LLC is a member of Self-regulated organization 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 organizations, main registration number 11603050648.

Statement of financial position

As of 31 December 2016

(thousands of Russian rubles)

	Notes	*31 December 2016*	*31 December 2015*
Assets			
Cash and cash equivalents	5	2,053,065	1,444,967
Obligatory reserve with the CBR		29,397	11,646
Amounts due from credit institutions	6	2,971,527	3,363,630
Derivative financial assets	7	136,743	2,881,955
Loans to customers	8	53,136,067	43,257,756
Investment securities available for sale		202,703	200,322
Property and equipment		18,533	10,485
Intangible assets	9	355,146	455,956
Income tax		120,225	32,487
Deferred income tax assets	10	864,603	593,694
Other assets	11	92,062	119,897
Total assets		**59,980,071**	**52,372,795**
Liabilities			
Amounts due to the CBR	12	–	2,006,986
Amounts due to credit institutions	13	27,834,243	27,178,330
Debt securities issued	20	5,255,000	–
Derivative financial liabilities	7	3,097,474	–
Amounts due to customers	14	13,182,484	13,624,696
Other liabilities	11	1,886,612	1,709,853
Total liabilities		**51,255,813**	**44,519,865**
Equity	15		
Share capital		3,333,091	3,333,091
Share premium		5,580,800	5,580,800
Accumulated deficit		(31,235)	(1,038,271)
Unrealized loss on revaluation of securities available for sale		546	173
Unrealized loss on cash flow hedges		(158,944)	(22,863)
Total equity		**8,724,258**	**7,852,930**
Total equity and liabilities		**59,980,071**	**52,372,795**

Chairman of the Management Board
Bruno Robert Louis Kintzinger

Chief Accountant
Darya Lvova

29 March 2017

The accompanying notes on pages 14 to 59 are an integral part of these financial statements.

Statement of profit or loss and comprehensive income

For the year ended 31 December 2016

(thousands of Russian rubles)

	Notes	*2016*	*2015*
Interest income			
Loans to customers	17	8,608,792	6,158,146
Amounts due from credit institutions		667,526	470,146
Total interest income		**9,276,318**	**6,628,292**
Interest expense			
Amounts due to customers		(423,214)	(647,733)
Amounts due to credit institutions		(3,671,688)	(2,423,110)
Debt securities issued		(276,940)	–
Total interest expense		**(4,371,842)**	**(3,070,843)**
Net interest income		**4,904,476**	**3,557,449**
Allowance for loan impairment	6, 8	(351,685)	(417,771)
Net interest income after allowance for loan impairment		**4,552,791**	**3,139,678**
Fee and commission income	18	74,305	50,236
Fee and commission expense	18	(125,199)	(111,954)
Net fee and commission expense	18	**(50,894)**	**(61,718)**
Net gains/(losses) from financial instruments at fair value through profit or loss		(3,590,411)	1,767,534
Net gains/(losses) from foreign currencies		2,077,095	(2,849,430)
- dealing		247	428
- translation differences		2,076,848	(2,849,858)
Other income	20	385,354	3,339
Non-interest expense		**(1,127,962)**	**(1,078,557)**
Personnel expenses	19	(475,145)	(459,700)
Other administrative expenses	19	(874,458)	(965,436)
Depreciation of property and equipment		(14,199)	(17,428)
Depreciation of intangible assets	9	(194,220)	(144,578)
Operational expense		**(1,558,022)**	**(1,587,142)**
Profit before income tax expense		**1,815,913**	**412,261**
Income tax expense	10	(417,688)	(21,072)
Total net profit for the year		**1,398,225**	**391,189**
Other comprehensive income/(loss)			
Items which may be reclassified to profit or loss in subsequent periods			
Revaluation reserve for securities available for sale		373	173
Unrealized loss on cash flow hedges		(136,081)	(22,863)
Other comprehensive loss, net of tax		**(175,444)**	**(135,708)**
Total comprehensive income		**1,262,517**	**368,499**

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Darya Lvova

29 March 2017

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Statement of changes in equity

For the year ended 31 December 2016

(thousands of Russian rubles)

	Share capital	*Share premium*	*Accumulated deficit*	*Unrealized gain on securities revaluation*	*Provision for hedges*	*Total equity*
1 January 2015	**3,333,091**	**5,580,800**	**(1,429,460)**	**–**	**–**	**7,484,431**
Profit for the year	–	–	391,189	–	–	**391,189**
Other comprehensive loss	–	–	–	173	(22,863)	**(22,690)**
Total comprehensive income for the year	**–**	**–**	**391,189**	**173**	**(22,863)**	**368,499**
31 December 2015	**3,333,091**	**5,580,800**	**(1,038,271)**	**173**	**(22,863)**	**7,852,930**
Profit for the year	–	–	1,398,225	–	–	**1,398,225**
Other comprehensive loss	–	–	–	373	(136,081)	**(135,708)**
Total comprehensive income for the year	**–**	**–**	**1,398,225**	**373**	**(136,081)**	**1,262,518**
Dividends paid	–	–	(391,189)	–	–	**(391,189)**
31 December 2016	**3,333,091**	**5,580,800**	**(31,235)**	**546**	**(158,944)**	**8,724,258**

Chairman of the Management Board
Bruno Robert Louis Kintzinger

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Darya Lvova

29 March 2017

The accompanying notes on pages 14 to 59 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2016

(thousands of Russian rubles)

	Note	*31 December 2016*	*31 December 2015*
Cash flows from operating activities			
Interest received		9,874,092	7,228,990
Interest paid		(3,041,356)	(3,476,135)
Fees and commissions received		76,364	49,261
Fees and commissions paid		(125,337)	(112,064)
Results of operations with financial instruments at fair value		(821,461)	2,773,752
Realized gains less losses from dealing in foreign currencies		247	429
Other income received		1,562	1,049
Personnel expenses paid		(430,850)	(419,140)
Other operating expenses paid		(112,442)	(549,744)
Cash flows from operating activities before changes in operating assets and liabilities		**5,420,819**	**5,496,398**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(17,751)	104,050
Amounts due from credit institutions		501,984	(2,152,523)
Loans to customers		(11,170,917)	(18,377,370)
Other assets		27,965	(35,956)
Net increase/(decrease) in operating liabilities			
Amounts due to the CBR		(2,000,000)	1,000,000
Amounts due to credit institutions		3,084,432	5,996,583
Amounts due to customers		1,053,924	955,675
Other liabilities		(15,391)	330,500
Net cash flows from operating activities before income tax		**(3,114,935)**	**(6,682,643)**
Income tax expense		(736,519)	(578,691)
Net cash used in / (from) operating activities		**(3,851,454)**	**(7,261,334)**
Cash flows from investing activities			
Purchase of property and equipment, intangible assets		(114,810)	–
Proceeds from disposal of property and equipment		–	–
Purchase of securities available for sale		(100,673)	(200,106)
Proceeds from sale and redemption of securities and other financial assets designated as available for sale		99,479	
Net cash from / (used in) investing activities		**(116,724)**	**(200,106)**
Cash flows from financing activities			
Proceeds from increase in share capital		–	–
Shareholder contributions		–	–
Payments to shareholder		–	–
Dividends paid		(391,189)	–
Debt securities issued		5,000,000	–
Net cash from financing activities		**4,608,811**	**–**
Effect of exchange rates changes on cash and cash equivalents		(32,535)	(123,448)
Net increase/(decrease) in cash and cash equivalents		**608,098**	**(7,584,888)**
Cash and cash equivalents, beginning		1,444,967	9,029,855
Cash and cash equivalents, ending	5	**2,053,065**	**1,444,967**

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Bruno Robert Louis Kintzinger

Chief Accountant
Darya Lvova

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ г. МОСКВА

29 March 2017

The accompanying notes on pages 14 to 59 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

These are the financial statements of JSC RN Bank.

The Bank (former CJSC Bank Sibir) was formed in the Russian Federation (the city of Omsk) on 9 March 1989. In 1995, the Bank was renamed into a limited liability company. In 2002 the Bank changed its legal form to a closed joint stock company. Since May 2013, the Bank is registered and located in Moscow. On 5 September 2013, following the decision of the sole shareholder (Decision No. 1 dated 5 September 2013), the Bank changed its name as follows:

Full corporate name of the Bank: Closed joint stock company RN Bank.

Short name: CJSC RN Bank.

Location (legal address): Russia 109028, Moscow, Serebryanicheskaya nab., 29.

Main State Registration Number: 1025500003737.

Record concerning the establishment was made in the Uniform State Register of Legal Entities on 6 November 2002.

Bank's identification code (BIC): 044583105.

Taxpayer identification number (TIN): 5503067018.

Contact telephone number: +7 (495) 775-40-68.

Contact fax number: +7 (495) 775-40-67.

Email address: help@rn-bank.ru.

Web-site: www.rn-bank.ru.

In 2014 the Bank changed its legal form from a closed joint stock company to a joint stock company. The decision was approved by the Shareholders on 31 October 2014. The change was made to the Unified Register of Legal Entities on 9 December 2014.

The Bank carries out its activities based on the following licenses:

- License No. 170 issued on 6 November 2013 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals);
- License No. 170 issued on 6 November 2013 to accept deposits from individuals denominated in rubles and foreign currencies.

The Bank is a member of the deposit insurance system and was included in the register of banks participating in the obligatory insurance system on 3 February 2005 (Certificate No. 551). The system operates under the federal laws and regulations and is governed by the State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors in the amount up to RUB 1,400 thousand both in 2016 and 2015 per each individual in case of a business failure or revocation of the CBR banking license.

As of 31 December 2016 the Bank:

- Has BB+ rating with positive outlook assigned by Fitch Ratings;
- Is not a member of a banking group;
- Is not a professional participant of the securities market;
- Has no branches and representative offices in the Russian Federation;
- Has no subsidiaries or affiliates.

As of 31 December 2016, the average headcount of the Bank was 187 employees (31 December 2015: 165 employees).

As of 31 December 2016 and 2015, Limited Liability Company BARN B.V. – Netherlands is the sole shareholder of the Bank. The ownership in the share capital of the Bank: 100.00%.

(thousands of Russian rubles)

2. Basis of preparation

Statement of compliance with International Financial Reporting Standards

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

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

Basis of measurement

These financial statements have been prepared under the historical cost convention except for financial instruments at fair value. For example, derivative financial instruments have been measured by the Bank at fair value. The historical cost is generally estimated based on the fair value of consideration transferred in exchange of goods and services.

Presentation currency

These financial statements are presented in thousands of Russian rubles ("RUB").

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The application of this standard resulted in an increase in the share capital by RUB 64,091 thousand and an increase in accumulated deficit by the similar amount.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and interpretations effective for annual reporting periods beginning on 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 Bank.

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *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 Bank as the Bank 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.

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.

The amendment did not affect the Bank's financial statements.

The following significant accounting policies have been applied in the preparation of the financial statements.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset or a requirement arises due to contractual encumbrances. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss represent financial assets and liabilities, which are:

- Acquired principally for the purpose of reselling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed as a single portfolio and for which there is evidence of a recent actual pattern of near-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments designated as a hedging instrument in an effective hedge); or
- Classified by the Bank as financial instruments at fair value through profit or loss at initial recognition.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial assets and liabilities are classified by the Bank as financial assets and liabilities at fair value through profit or loss if:

- These assets or liabilities are managed and evaluated on a fair value basis;
- Designation of these assets and liabilities into the category of assets and liabilities at fair value through profit or loss eliminates or significantly reduces the mismatch which otherwise would arise, or if
- The corresponding asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., Level 1 inputs) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, irrespective of whether this price is directly observable or is determined by calculation using another valuation technique.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

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

The fair value of financial instruments traded in an active market at the reporting date is determined based on their quoted market price or dealer price quotations. Where quoted market prices are not available, the fair value of financial instruments is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include comparative data on recent transactions between unwilling parties, 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 rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on respective market-based measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank 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.

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

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

Offsetting

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

The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

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

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

Reclassification of financial assets

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

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

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory cash balances with the Central Bank of the Russian Federation

The Bank cannot use obligatory cash balances with the Central Bank of the Russian Federation to finance its day-to-day operating activities.

Foreclosed assets

Under certain circumstances, assets relating to defaulted loans are foreclosed. Foreclosed assets are measured at the lower of the carrying amount and the fair value less costs to sell.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including foreign currency forwards and swaps. Such financial instruments are held for trading and are 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 statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss for the period.

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 on the trading portfolio with changes in fair value recognized in profit or loss.

Hedge accounting

The Bank uses derivative financial instruments to manage the risk of fluctuations of cash flows resulting from interest risk and changes in exchange rates. The Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank documents the relationship between the hedged item and the hedging instrument, including the nature of the hedging risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship.

At the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risks in the hedged item. Hedges are assessed at every reporting date. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedging risk during the hedge period, for which the hedge is designated, are expected to offset in a range of 80% to 125%.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized as other comprehensive income directly in the cash flow hedge reserve within equity in “Unrealized loss on hedging instruments”. The ineffective portion of gain or loss on the hedging instrument is recognized in the statement of profit or loss in “Net gains/(losses) from financial instruments at fair value through profit or loss”. When hedged cash flows affect the statement of profit or loss, the gain or loss on the hedging instrument is reclassified to the corresponding income or expense line of the statement of profit or loss. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss in “Gains less losses arising from derivative financial instruments”.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Fair value hedges

For designated and qualifying fair value hedges change in the fair value of a hedging derivative is recognized in the statement of profit or loss within “Net gains/(losses) from financial instruments at fair value through profit or loss” The change in the fair value of the hedged item attributable to the risk being hedged is recorded as the adjustment to the carrying amount of the hedged item and is recognized in the statement of profit or loss within “Net gains/(losses) from financial instruments at fair value through profit or loss”.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the statement of profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method.

Operating leases

Where the Bank is a lessee under lease agreements where the lessor retains substantially all the risks and benefits of ownership of the assets, such leases are classified as operating leases. Leased assets are not recognized in the financial statements and lease expenses are recognized in profit or loss on a straight-line basis over the lease period.

Where the operating lease terminates prior to the expiration of the lease term, any fines and forfeits due to the lessor are expensed in the period when such operating lease was terminated.

Impairment of financial assets

The Bank assesses on a regular basis whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists for loans that are individually significant, or collectively for loans that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans deemed by the Bank to be uncollectible due to the lack of repayment sources including liquid collateral are written off against the associated allowance.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and to allowance accounts.

Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Provided that an income source is available to the borrower, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes 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 Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered 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.

Non-financial assets

Other non-financial assets, excluding deferred taxes, are assessed for any indications of impairment 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.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Taxation

Income tax comprises current and deferred tax.

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

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.
The current income tax expense comprises the tax payable and calculated based on the taxable profit for the period by applying the statutory tax rates enacted or substantially enacted at the reporting date, and includes adjustments to the income tax payable for the prior periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available in the future, against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax regulation that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of property and equipment begins when they become available for use. Depreciation is accrued on a straight-line basis over the estimated useful live:

Property and equipment	***Depreciation period***
Furniture	5-7 years
Equipment	2-5 years
Computer equipment	2 years
Capital investments in leased property and equipment	3-6 years
Light vehicles	3 years
Other property and equipment	3-5 years

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to current and capital repairs are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

Intangible assets and goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is accrued on a straight-line basis over the useful life of an intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. At present, the useful life of intangible assets with finite useful life is estimated as not exceeding 5 years.

An intangible asset is derecognized upon sale, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Collateral

The Bank obtains collateral against customers' obligations where necessary. Collateral is generally the pledge of the customer's assets entitling the Bank to claim such assets with regard to the customers' current and future obligations.

Other provisions

Provisions are recognized when the Bank 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 obligation can be made.

Pension obligations and other employee benefits

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares 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 recognized as share premium (additional paid-in capital).

Dividends

Dividends are recognized 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 financial statements are authorized for issue.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortized 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 and 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 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 Bank 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 recognized 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 services it provides to its customers. Fee income can be divided into the following two categories:

Fee and commission 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. 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 recognized as an adjustment to the effective interest rate on the loan.

Fee and commission income from providing transaction services

Fees arising from negotiating of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain conditions are recognized after fulfilling the corresponding conditions.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation are recognized in profit or loss as gains/losses from translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. 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 profit or loss.

The official CBR exchange rates at 31 December 2016 and 31 December 2015 were RUB 60.6569 and RUB 72.8827 to 1 USD, respectively.

The official CBR exchange rates at 31 December 2016 and 31 December 2015 were RUB 63.8111 and RUB 79.6972 to 1 EUR, respectively.

The official CBR exchange rates at 31 December 2016 and 31 December 2015 were RUB 51.8324 and RUB 60.5087 to 100 JPY, respectively.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Government grants

Government grants are the government aid in the form of providing an entity with resources in exchange for fulfillment of certain past or future conditions related to operating activities of such entity.

Government grants, including non-monetary grants at fair value, are recognized when there is reasonable assurance that:

- An entity will fulfill relevant conditions; and
- Grants will be received.

The Bank systematically recognizes government grants in profit or loss over the period necessary to match the grant to the costs that it is intended to compensate.

Standards issued but not yet effective

The standards that are issued but not yet effective at the date of issuance of the Bank's financial statements are disclosed below. The Bank 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.

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

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

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

The Bank 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 Bank 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 amendments are effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

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

- The effects of vesting conditions on the measurement of a cash-settled share-based payment;
- 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 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. These amendments are not expected to have any impact to the Bank.

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

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 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 that the additional volatility that may arise if IFRS 9 is applied with IFRS 4 be removed from profit or loss.

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. These amendments are not expected to have any impact to the Bank.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates is 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. 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. More details are provided in Note 21.

Allowance for loan impairment

A loan is impaired as a result of one or more events that occurred after the initial recognition of a loan and had an impact on the estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

The Bank estimates an allowance for impairment of loans issued to retail customers using its own model, which accounts for the following: past actual loss experience by each type of loan, probability of default based on the evaluation of the borrower's financial performance, and loss given default, including fair value and collateral liquidity.

The Bank regularly reviews its loans and receivables to analyze them for impairment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

In case there are few available sources of historical data relating to the loss of similar borrowers, the Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties based on the accumulated experience. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Deferred income tax asset recognition

Income tax expense in respect of the current tax assets and liabilities is recognised based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Bank is presented. Income tax expense in respect of the deferred income tax assets and liabilities is measured at the income tax rates that are expected to be applied to the period when deferred assets are realised or liability are settled based on the income tax rates officially enacted by the end of the reporting period.

The recognised deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecasted probable in the future are based on management estimates.

(thousands of Russian rubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	*31 December 2015*
Cash on hand	10	10
Current accounts with the CBR	414,847	191,917
Balances on nostro accounts with other credit institutions rated not lower than BBB	137,839	53,040
Term deposits (up to 90 days) with other banks rated not lower than BBB	1,500,369	1,200,000
Total cash and cash equivalents	**2,053,065**	**1,444,967**

Cash and cash equivalents are neither impaired, nor past due.

As at 31 December 2016, the Bank had balances with one counterparty (2015: two counterparties).

As of 31 December 2015, total balances with all counterparties comprised 48.44% and 34.60% of the total cash and cash equivalents, respectively.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	*31 December 2015*
Term deposits with credit institutions		
Rated not lower than BBB	3,001,796	3,503,781
Allowance for impairment	(30,269)	(140,151)
Amounts due from credit institutions	**2,971,527**	**3,363,630**

As of 31 December 2016, the Bank had balances with one counterparty (2015: two counterparties).

See below the movements in the allowance for impairment broken by year:

	Allowance for impairment
1 January 2015	**–**
Charge/(recovery) of allowance	140,151
1 January 2016	**140,151**
Charge/(recovery) of allowance	(109,882)
31 December 2016	**30,269**

7. Derivative financial instruments

In 2016 the Bank did not enter into derivative financial instruments for trading purposes. Derivative financial instruments represent hedges. The table below shows the fair values of derivative financial instruments, recorded in the financial statements as assets or liabilities.

The Bank measures derivative financial instruments using valuation techniques based on the market interest rates. Significant changes in the specified variables may produce materially different estimates of fair values.

(thousands of Russian rubles)

7. Derivative financial instruments (continued)

Below are fair values of the derivative recognized in assets and liabilities and their nominal values as of 31 December 2016:

	31 December 2016			
	Nominal value		***Fair value***	
	Assets	***Liabilities***	***Assets***	***Liabilities***
Currency exchange contracts				
Swaps	540,197	854,414	–	(233,301)
Currency interest contracts				
Swaps	20,636,371	27,642,123	136,743	(2,447,800)
Interest contracts				
Swaps	2,130,894	420,142	–	(416,373)
	23,307,462	**28,916,679**	**136,743**	**(3,097,474)**

Below are fair values of the derivative financial instruments recognized in assets and liabilities and their nominal values as of 31 December 2015:

	31 December 2015			
	Nominal value		***Fair value***	
	Assets	***Liabilities***	***Assets***	***Liabilities***
Currency exchange contracts				
Swaps	3,094,140	2,915,862	412,836	–
Currency interest contracts				
Swaps	18,739,790	18,569,831	2,469,119	–
	21,833,930	**21,485,693**	**2,881,955**	**–**

As of 31 December 2016, the Bank had positions in the currency exchange swaps, which are contractual agreements between two parties to exchange movements in foreign currency rates, currency interest swaps, which are contractual agreements stipulating that on the fixed date a party shall pay a fixed interest in RUB to the other party and shall receive a payment of the interest at a floating rate in foreign currency, and interest swaps, which are contractual agreements that on the fixed date a party shall pay a fixed interest in foreign currency to the other party and shall receive a payment of the interest at a floating rate in RUB.

As of 31 December 2016, the Bank entered into derivative transactions with four counterparties. As of 31 December 2016, total balances with all counterparties were as follows: 77% with non-resident counterparties and 23% with resident counterparty.

As of 31 December 2015, the Bank entered into derivative transactions with three counterparties. As of 31 December 2015, total balances with all counterparties comprised as follows: 76% with non-resident counterparties and 24% with resident counterparty.

To manage exposure to currency and interest rate risks, in 2016 the Bank continued to apply hedge accounting in relation to all derivative transactions that were concluded after 1 January 2015 and passed hedge effectiveness test.

The table below shows non-trading derivative financial instruments by hedges included in assets or liabilities as of 31 December 2016 and 2015, respectively.

	31 December 2016	
	Asset	***Liabilities***
Hedging instruments		
Currency exchange contracts	**–**	**(233,301)**
Fair value hedges	–	–
Cash flow hedges	–	(233,301)
Currency interest contracts	**–**	**(1,684,027)**
Fair value hedges	–	(127,409)
Cash flow hedges	–	(1,556,618)
Interest contracts	**–**	**(416,373)**
Fair value hedges	–	(416,373)
Cash flow hedges	–	–
Non-hedging derivatives	**136,743**	**(763,773)**
Total	**136,743**	**(3,097,474)**

(thousands of Russian rubles)

7. Derivative financial instruments (continued)

	31 December 2015	
	Asset	***Liabilities***
Hedging instruments		
Currency exchange contracts	**412,836**	**–**
Cash flow hedges	412,836	–
Currency interest contracts	**1,491,851**	**–**
Cash flow hedges	1,491,851	–
Non-hedging derivatives	**977,268**	**–**
Total	**2,881,955**	**–**

Non-hedging contracts comprise derivative transactions entered into before 1 January 2015 and transactions that were concluded after 1 January 2015 but not passed hedge effectiveness test.

For cash flow hedges:

- The expected period of the cash flows movement including when they are expected to affect profit or loss: from January 2017 through October 2019;
- In 2016, RUB 4,377,993 thousand was recognized in other comprehensive income, RUB 4 202 176 thousand was reclassified to profit or loss with RUB 1,105 thousand included in line interest expenses on amounts due to customers and RUB 1,532,747 thousand included in line interest expenses on amounts due to banks. Translation differences amounted to RUB 2,668,324 thousand;
- In 2015, RUB 1,531,511 thousand was recognized in other comprehensive income for the period, RUB 1,467,438 was reclassified to profit or loss with RUB 450,303 thousand included in line interest expenses on amounts due to customers and RUB 367,562 thousand included in line interest expenses on amounts due to banks. Translation differences amounted to RUB 2,285,303 thousand.

Fair value hedges:

- In 2016, RUB 544 940 thousand was recognized through profit or loss, including RUB 434,724 thousand of currency translation differences and RUB 51,724 of ineffective portion.

8. Loans to customers

Loans to customers comprise:

	31 December 2016	***31 December 2015***
Loans to legal entities		
Factoring	13,422,736	10,765,610
Total gross loans of legal entities	**13,422,736**	**10,765,610**
Loans to individuals		
Car loans	39,702,515	32,306,032
Government grant receivable	1,592,691	1,306,422
Total gross loans of individuals	**41,295,206**	**33,612,454**
Allowance for impairment	(1,581,875)	(1,120,308)
Total loans to customers	**53,136,067**	**43,257,756**

* Concessional car lending program of the Russian Ministry of Industry and Trade sets the reduced rate for the loans attracted for the credit purchase of new cars with the price not exceeding RUB 1.15 million. The program applies to RUB-denominated loans with a maturity of up to 3 years with the initial contribution of 20% of the car price.

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

Below are movements in the allowance for impairment by groups of loans to customers for the year ended 31 December 2016:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2016	**775,109**	**345,199**	**1,120,308**
Charge of allowance	44,879	416,688	**461,567**
31 December 2016	**819,988**	**761,887**	**1,581,875**
Allowance for impairment on a collective basis	816,279	392,164	**1,208,443**
Allowance for impairment on an individual basis	3,709	369,723	**373,432**

Below are movements in the allowance for impairment by groups of loans to customers for the year ended 31 December 2015:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2015	**775,485**	**58,089**	**833,574**
Charge/(reversal) of allowance	(376)	291,509	**291,133**
Write-off against allowance	–	(4,398)	**(4,398)**
31 December 2015	**775,109**	**345,199**	**1,120,308**
Allowance for impairment on a collective basis	769,807	182,247	**952,054**
Allowance for impairment on an individual basis	5,302	162,952	**168,254**

Loans before allowance for impairment and the respective impairment amount as of 31 December 2016 are presented in the table below:

	Loans, gross	*Allowance*	*Loans less allowance for impairment*
Loans to legal entities			
Loans not individually impaired	**13,419,027**	**816,279**	**12,602,748**
- not overdue	13,419,027	816,279	12,602,748
Loans individually impaired	**3,709**	**3,709**	**–**
- not overdue	–	–	–
- over 180 days overdue	3,709	3,709	–
Total loans to legal entities	**13,422,736**	**819,988**	**12,602,748**
Loans to individuals			
Loans not individually impaired	**40,863,640**	**392,164**	**40,471,476**
- not overdue	40,009,788	345,162	39,664,626
- less than 31 days overdue	629,404	15,032	614,372
- 31 to 90 days overdue	224,448	31,970	192,478
Loans individually impaired	**431,566**	**369,723**	**61,843**
- not overdue	22,863	22,863	–
- less than 31 days overdue	3,522	3,522	–
- 31 to 90 days overdue	13,117	13,117	–
- 90 to 180 days overdue	103,129	53,173	49,956
- over 180 days overdue	288,935	277,048	11,888
Total loans to individuals	**41,295,207**	**761,887**	**40,533,320**
Total loans to customers	**54,717,942**	**1,581,875**	**53,136,067**

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Loans before allowance for impairment and the respective impairment amount as of 31 December 2015 are presented in the table below:

	Gross loans	*Allowance*	*Loans less allowance for impairment*
Loans to legal entities			
Loans not individually impaired	**10,760,138**	**769,807**	**9,990,331**
- not overdue	10,698,569	751,971	9,946,598
- less than 31 days overdue	61,569	17,836	43,733
Loans individually impaired	**5,472**	**5,302**	**170**
- 31 to 90 days overdue	2,718	2,718	–
- 90 to 180 days overdue	2,754	2,584	170
Total loans to legal entities	**10,765,610**	**775,109**	**9,990,501**
Loans to individuals			
Loans not individually impaired	**33,415,738**	**182,247**	**33,233,491**
- not overdue	32,792,792	119,953	32,672,839
- less than 31 days overdue	469,679	16,438	453,241
- 31 to 90 days overdue	153,267	45,856	107,411
Loans individually impaired	**196,716**	**162,952**	**33,764**
- not overdue	7,421	7,421	–
- less than 31 days overdue	1,837	1,837	–
- 31 to 90 days overdue	10,528	10,528	–
- 90 to 180 days overdue	72,710	38,946	33,764
- over 180 days overdue	104,220	104,220	–
Total loans to individuals	**33,612,454**	**345,199**	**33,267,255**
Total loans to customers	**44,378,064**	**1,120,308**	**43,257,756**

Key assumptions and judgments in loan impairment assessment

A loan is impaired as a result of one or more events that occurred after the initial recognition of a loan and had an impact on the estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

Objective evidence of impairment of loans to legal entities and individuals is in particular associated with the following:

- At least one of the loan-related payments is over 90 days overdue (fully or partially);
- The Client is subject to legal actions and complaints as a defendant in cases related to unsettled loans with the Bank;
- The loans of the Client were written off of the Bank's balance sheet;
- The Client's debt was restructured and the outstanding amount was reduced through forgiving or postponement of the principle amount and/or interest and/or commission payment (as appropriate);
- The Client is subject to the insolvency procedure (liquidation/bankruptcy).

The Bank determines the impairment allowance for loans to legal entities based on the following major assumptions:

- Financial position of the Client and its ability to fulfill obligations to the Bank;
- Collateral considered in the future cash flows assessment is the collateral which may be sold on the market.

(thousands of Russian rubles)

8. Loans to customers (continued)

Impaired loans

As of 31 December 2016, interest income on impaired loans amounted to RUB 5,211 thousand (31 December 2015: RUB 3,744 thousand).

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Corporate lending: charges over vehicles, charges over spare parts, bank guarantees, corporate or personal sureties, the rights of claim under corporate deposits;
- Retail lending: charges over vehicles, personal sureties.

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements.

Below are the total values of collateral by the types of loans to customers and types of collateral as of 31 December 2016:

	Contract value of collateral (as of the reporting date)	*Carrying amount of loans to customers*
Loans to legal entities		
Loans not individually impaired		
- vehicles	12,166,622	–
- guarantees of credit institutions	680,860	–
- rights of claim under corporate deposits	91,659	–
- corporate sureties	45,429,339	–
- personal sureties	13,480,820	–
- no collateral	–	–
Total loans not impaired, gross	**71,849,300**	**13,419,027**
Loans individually impaired		
- vehicles	–	–
- guarantees of credit institutions	–	–
- rights of claim under corporate deposits	–	–
- corporate sureties	82,000	–
- personal sureties	246,000	–
- no collateral	–	–
Total loans impaired, gross	**328,000**	**3,709**
Total loans to legal entities	**72,177,300**	**13,422,736**
Loans to individuals		
Loans not individually impaired		
- vehicles	95,656,912	–
- personal sureties	91,659	–
- no collateral	–	–
Total loans not impaired, gross	**95,748,571**	**40,863,640**
Loans individually impaired		
- vehicles	693,067	–
- personal sureties	–	–
- no collateral	–	31,534
Total loans impaired, gross	**693,067**	**431,566**
Total loans to individuals	**96,441,638**	**41,295,206**
Total loans to customers	**168,618,938**	**54,717,942**

(thousands of Russian rubles)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The following table shows the total value of collateral by the types of loans to customers and types of collateral, except for surplus collateral as of 31 December 2015:

	Contract value of collateral (as of the reporting date)	*Carrying amount of loans to customers*
Loans to legal entities		
Loans not individually impaired		
- vehicles	10,072,910	–
- guarantees of credit institutions	206,165	–
- rights of claim under corporate deposits	38,200	–
- corporate sureties	41,364,339	–
- personal sureties	10,324,900	–
- no collateral	–	–
Total loans not impaired, gross	**62,006,514**	**10,760,139**
Loans individually impaired		
- vehicles	2,436	–
- guarantees of credit institutions	–	–
- rights of claim under corporate deposits	–	–
- corporate sureties	82,000	–
- personal sureties	246,000	–
- no collateral	–	–
Total loans impaired, gross	**330,436**	**5,472**
Total loans to legal entities	**62,336,950**	**10,765,610**
Loans to individuals		
Loans not individually impaired		
- vehicles	63,418,525	–
- personal sureties	108,644	–
- no collateral	–	–
Total loans not impaired, gross	**63,527,169**	**33,415,738**
Loans individually impaired		
- vehicles	219,507	–
- personal sureties	–	–
- no collateral	–	–
Total loans impaired, gross	**219,507**	**196,716**
Total loans to individuals	**63,746,676**	**33,612,454**
Total loans to customers	**126,083,626**	**44,378,064**

Restructured loans

As of 31 December 2016, 74 restructured loans to individuals, with the carrying amount of RUB 31,751 thousand, are recognized on the balance sheet.

As of 31 December 2015, 32 restructured loans to individuals, with the carrying amount of RUB 15,401 thousand, are recognized on the balance sheet.

Concentration of loans to customers

As of 31 December 2016, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 7,335,933 thousand (13.42% of total loan portfolio). An allowance of RUB 434,460 thousand was charged against these loans.

As of 31 December 2015, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 5,372,718 thousand (12.14% of total loan portfolio). An allowance of RUB 303,182 thousand was charged against these loans.

(thousands of Russian rubles)

9. Intangible assets

The movements in intangible assets during 2016 were as follows:

	Computer software
Cost	
31 December 2015	**765,052**
Acquisitions	93,411
Disposals	275
31 December 2016	**858,738**
Accumulated amortization	
31 December 2015	**(309,096)**
Amortization charge	(194,220)
Disposals	(276)
31 December 2016	**(503,592)**
Net book value	
31 December 2016	**355,146**

The movements in intangible assets during 2015 were as follows:

	Computer software
Cost	
31 December 2014	**727,037**
Acquisitions	38,015
Disposals	–
31 December 2015	**765,052**
Accumulated amortization	
31 December 2014	**(164,518)**
Amortization charge	(144,578)
Disposals	–
31 December 2015	**(309,096)**
Net book value	
31 December 2015	**455,956**

The list of individually significant intangible assets as of 31 December 2016 is set out below:

	Net book value	*Remaining useful life, months*
CFT system software (automated banking system)	149,169	21
NeoFlex Front Office software (system for processing loan applications for loans to individuals)	132,510	21
Credit Reseau software (system for automated corporate lending)	12,869	21

The list of individually significant intangible assets as of 31 December 2015 is set out below:

	Net book value	*Remaining useful life, months*
CFT system software (automated banking system)	193,051	33
NeoFlex Front Office software (system for processing loan applications for loans to individuals)	188,045	33
Credit Reseau software (system for automated corporate lending)	20,223	33

(thousands of Russian rubles)

10. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current income tax expense	(648,954)	(546,204)
Deferred tax credit – origination and reversal of temporary differences	231,266	525,132
Income tax expense	**(417,688)**	**(21,072)**

Russian legal entities must file income tax declarations. The standard income tax rate for companies (including banks) was 20% for 2016 and 2015.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2016	*2015*
Profit/(loss) before tax	**1,815,913**	**412,261**
Statutory tax rate	20%	20%
Income tax at the applicable income tax rate	**(363,183)**	**(82,452)**
Non-deductible expenditures and non-taxable income	(54,847)	(11,079)
Unrecognized deferred tax asset movement	–	72,040
Other	342	419
Income taxed at a lower rate	–	–
Income tax carried forward not recognized as deferred tax asset	–	–
Income tax expense	**(417,688)**	**(21,072)**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	1 January 2016	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*31 December 2016*
Allowance for impairment	33,917	(4,411)	–	29,506
Derivative financial instruments	118,830	108,437	39,599	266,866
Loans to customers	407,764	189,893	–	597,657
Other assets	5,580	(81,034)	–	(75,454)
Other liabilities	27,647	18,381	–	46,028
Total deferred tax assets	**593,738**	**231,266**	**39,599**	**864,603**

	1 January 2015	*Recognized in profit or loss*	*31 December 2015*
Allowance for impairment	123,475	(89,558)	33,917
Derivative financial instruments	(225,960)	344,790	118,786
Loans to customers	45,277	362,487	407,764
Other assets	(2,478)	8,058	5,580
Other liabilities	128,291	(100,644)	27,647
Tax loss carried forward	165,311	(72,040)	93,270
Unrecognized deferred tax asset	(165,311)	72,040	(93,270)
Total deferred tax assets	**68,605**	**525,133**	**593,694**

The Bank recognized a tax asset equal to its estimated sufficient taxable profit available in the foreseeable future to realize the deferred tax asset in accordance with the Bank's business plan which is adjusted for expected adverse economic changes in the market where the Bank operates.

(thousands of Russian rubles)

11. Other assets and liabilities

Other assets comprise:

	31 December 2016	*31 December 2015*
Prepayments	44,980	51,468
Prepaid taxes	21,468	34,481
Guarantee deposits under lease agreements	15,188	18,507
Other	10,426	15,441
Other assets	**92,062**	**119,897**

Other liabilities comprise:

	31 December 2016	*31 December 2015*
Payroll payable	282,022	264,492
Trade payables	674,834	696,649
Agency fees under insurance agreements	460,469	598,358
Taxes payable	187,287	150,354
Provisions for taxes	282,000	–
Other liabilities	**1,886,612**	**1,709,853**

12. Amounts due to the CBR

Amounts due to the CBR comprise:

	31 December 2016	*31 December 2015*
Short-term loans	–	2,006,986
Amounts due to the CBR	**–**	**2,006,986**

13. Amounts due to credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	*31 December 2015*
Deposits received from banks rated not lower than BBB and maturing within 1 year	16,111,472	13,205,092
Deposits received from banks rated not lower than BBB and maturing after 1 year	11,722,771	13,973,238
Amounts due to credit institutions	**27,834,243**	**27,178,330**

As of 31 December 2016, the Bank raised RUB 14,412,985 thousand (2015: RUB 16,802,531 thousand) as deposits of resident banks and RUB 13,421,258 thousand (2015: RUB 10,375,799 thousand) as deposits of non-resident banks.

As of 31 December 2016, the Bank had balances on short-term and long-term deposits with three counterparties. As of 31 December 2016, total balances with all counterparties comprised as follows: 51.78% with resident banks and 48.22% with a non-resident bank.

As of 31 December 2015, the Bank had balances on short-term and long-term deposits with six counterparties. As of 31 December 2015, total balances with all counterparties comprised as follows (in percentage of the total amount due to credit institutions): 46.35% with a resident bank, 38.18% with a non-resident bank and 15.48% with four resident banks.

(thousands of Russian rubles)

14. Amounts due to customers

Amounts due to customers comprise:

	31 December 2015	***31 December 2014***
Current accounts and demand deposits		
- corporate customers	13,037	9,984
- retail customers	1,395,505	1,041,436
Deposits of legal entities maturing within a year	4,457,588	38,201
Deposits of legal entities maturing after one year	7,316,354	12,535,075
Amounts due to customers	**13,182,484**	**13,624,696**

As of 31 December 2016, the Bank raised RUB 709,810 thousand (2015: RUB 38,201 thousand) as deposits of resident legal entities and RUB 11,064,132 thousand (2015: RUB 12,535,075 thousand) as deposits of non-resident legal entities.

As of 31 December 2016, the Bank had balances on short-term deposits with multiple counterparties and long-term deposits with two non-resident counterparties. As of 31 December 2016, balances with all counterparties comprised as follows (in percentage of the total short-term and long-term deposits): 94% with non-resident legal entities, 6% with resident legal entities.

15. Equity

As of 31 December 2016 and 2015, the number of authorized ordinary shares was 2,335,000 with the nominal value of RUB 1,400 per share. All authorized shares have been issued and fully paid.

Dividends of RUB 391,189 thousand were declared and paid on 5 September 2016.

The amount of dividends per 1 ordinary share was RUB 0.168 thousand.

In 2016 the Bank did not place any additionally issued shares.

16. Commitments and contingencies

Operating environment

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

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

Legal

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

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. 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 Bank may be challenged by the relevant regional and federal authorities.

(thousands of Russian rubles)

16. Commitments and contingencies (continued)

Taxation (continued)

The Russian transfer pricing tax legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax and value added tax liabilities in respect of all controlled transactions if the transaction price differs from the market price and unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions. Due to the absence of law enforcement precedents based on the new rules, consequences of any disputes with tax authorities relating to prices cannot be estimated reliably, but may influence the Bank's financial results and performance. In 2016, the Bank determined its tax liabilities arising from these controlled transactions using actual transaction prices. Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation with regard to controlled transactions, including proper preparation and presentation of notifications and, if necessary, transfer pricing documentation to the tax authorities, confirming that the Bank used market prices in performing controlled transactions.

Effective 1 January 2015 rules for taxation of undistributed profit of controlled foreign companies and the concepts of "beneficial ownership", "tax residency" for foreign legal entities, were introduced into the tax legislation. The introduction of these law generally leads to an increase in the administrative (including tax) burden for the Russian entities that have subsidiary structures incorporated outside of Russia.

Interpretation of the above provisions of the Russian tax legislation in conjunction with the recent trends in law enforcement practice in taxation suggest that the tax authorities and courts are taking more assertive positions in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, significant additional taxes, penalties and late payment interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

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

Commitments and contingencies

As of 31 December, the Bank's financial commitments and contingencies comprised the following:

	31 December 2016	***31 December 2015***
Less than 1 year	85,190	96,107
From 1 to 5 years	42,526	61,650
Operating lease commitments	**127,716**	**157,757**

The Bank entered into operating lease agreement for the office premises that are the Bank's location and business address. In accordance with the agreement the total period of lease is 5 years with the options of renewal upon expiry and early termination. Lease payments are increasing annually, which reflects the market trends.

The Bank also entered into operating lease agreements for the cars used by the Bank in carrying out its core activities. The term of the agreements is 2 years.

In 2016 RUB 97,707 thousand are recognized as operating lease expenses in profit or loss (2015: RUB 149,719 thousand) (Note 19).

17. Interest income

	2016	***2015***
Loans to legal entities	1,896,645	1,348,515
Loans to individuals	6,692,664	4,801,176
Securities available for sale	19,483	8,454
Interest income	**8,608,792**	**6,158,146**

(thousands of Russian rubles)

18. Net fee and commission income

Net fee and commission income comprises:

Net fee and commission income

	2016	*2015*
Commission on factoring transactions	74,305	50,236
Fee and commission income	**74,305**	**50,236**
Commission for cash acceptance and transfer	122,862	109,529
Cash operations	884	766
Settlement operations	1,453	1,318
Other	–	341
Fee and commission expense	**125,199**	**111,954**
Net fee and commission expense	**(50,894)**	**(61,718)**

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

Personnel expenses

	2016	*2015*
Personnel benefits	396,309	381,055
Payroll related taxes and charges	78,836	78,645
Total personnel expenses	**475,145**	**459,700**

Other general and administrative expenses

	2016	*2015*
Promotion expenses	294,305	420,949
Audit	13,094	13,082
Communications and information services	87,421	92,865
Business travel	23,141	16,991
Advisory services	4,275	88,196
Taxes other than income tax	86,760	70,840
Training, participation in conferences	8,058	342
Security	1,702	1,702
Professional services	126,347	26,783
Lease expenses (Note 16)	97,707	149,719
Entertainment expenses	25,597	20,933
Repair and maintenance of property and equipment	17,595	23,149
Telecommunication services	38,636	16,575
Personnel expenses	31,824	16,108
Low-value and short-life items, expenses on materials for administrative and other needs	7,023	–
Other	10,973	7,202
Total general and administrative expenses	**874,458**	**965,436**

20. Other income

In 2015, the Bank created allowance for product promotion and commercial initiatives. In connection with the current economic situation in the Russian Federation and the current crisis, the Bank decided to partially cancel, partially postpone the implementation of initiatives for the following years. In this regard, in 2016, the Bank wrote off the provision created for the promotion of products in 2015. The amount was 383,792 thousand rubles.

(thousands of Russian rubles)

21. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating, legal, reputational and country risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

21.1 Internal control

The Bank has established internal control that is harmonized with the nature and scale of transactions and the level and combination of the risks assumed.

Internal control is aimed at, among other things, ensuring the following:

- Appropriate and comprehensive risk assessment and management process, effectiveness of financial and operational activities, efficiency of asset and liability management;
- Appropriate reliability, security and stability of the Bank in line with the nature and scale of transactions, protection of the rights of shareholders, customers and creditors of the Bank;
- Accuracy, completeness and objectivity as well as timely preparation and presentation of (statutory) financial statements, statistical and other reports and safeguarding information security;
- Compliance with statutory regulations, Bank's founding and internal documents;
- Noninvolvement of the Bank and its personnel in illegal activities, including money laundering and terrorism financing, as well as ensuring timeliness of data submitted to the state agencies and the CBR.

Internal control management is performed by the following bodies within the scope of their powers as set forth in the Bank's founding and internal documents:

- General Shareholders' Meeting;
- Board of Directors;
- Management Board;
- Chairman of the Management Board;
- Audit Commission (Auditor);
- Chief Accountant / Deputy Chief Accountant;
- Internal Control, Operational Risks and Compliance Committee;
- Internal Audit Function;
- Department for legal support, compliance control and financial monitoring (the DLSCCFM);
- Risk Management Department;
- Other personnel or divisions responsible for internal control within their scope of activities.

The Bank's internal control system includes the following areas of focus:

- Control over organization of Bank's operations performed by the management bodies;
- Control over functioning of the banking risk management system and banking risk assessment;
- Control over distribution of powers with respect to banking operations and other transactions;
- Control over data flow management (information provision and transmission) and information security assurance;
- Control over anti-money laundering and counter-terrorism financing;
- Ongoing monitoring of internal control system to assess its compliance with the Bank's operating objectives, detection of deficiencies, proposal development, and control over enhancement of the Bank's internal control system ("monitoring of the internal control system").

21. Risk management (continued)

21.1 Internal control (continued)

Control and monitoring over the system of banking risk management and internal control are performed by the Bank on a regular basis as provided in its internal regulations.

The Bank takes appropriate measures to enhance internal control aimed at ensuring its effectiveness, taking into account changing internal and external factors that affect the Bank's activities.

Monitoring of the internal control system is performed by the management and personnel of various business units, including departments responsible for banking operations and other transactions and their recognition in accounting and reporting as well as the Internal Audit Function and DLSCCFM responsible for internal control function and auditors engaged by the Bank's shareholders.

Frequency of monitoring of various types of banking activities is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities. Audit plans of the Internal Audit Function are annually approved by the Bank's Board of Directors.

The Bank's Internal Audit Function is formed to perform the audit and assist the Bank's management bodies in ensuring the Bank's effective operation, protecting interests of the Bank's shareholders and customers and continuously monitoring and assessing the effectiveness and adequacy of internal control, including:

- The effectiveness of financial and operating activities;
- The fairness of accounting records, accuracy, completeness and objectivity of financial statements;
- The effectiveness of the risk management system;
- Compliance with Russian statutory regulations, Bank's founding and internal documents;
- The effectiveness of asset and liability management, including physical asset security.

The Bank has ensured consistency, independence and objectivity of the Internal Audit Function, professional qualification of its head and personnel, also there has been established environment for the Internal Audit Function to comply with its duties efficiently and smoothly. The Internal Audit Function operates under direct control of the Board of Directors.

The Bank has established the procedures of:

- Control (including additional audits) over measures taken to eliminate violations identified by the Internal Audit Function;
- Reporting of the Internal Audit Function at least semiannually on the measures taken to follow the recommendations and to eliminate the identified violations to the Board of Directors.

Department for legal support, compliance control and financial monitoring (DLSCCFM)[i]

DLSCCFM is responsible for ensuring the compliance of the Bank's activities with the current legislation of the Russian Federation, the Bank's internal regulations and standards for self-regulating organizations. The Internal Control Function also reviews the Bank's documentation, performs assessment of regulatory risks, provides recommendations on risk mitigation and ensures the Bank's compliance with the Russian legislation and standards and taking measures aimed at protection of the Bank's business reputation.

DLSCCFM reports on the work performed to the Chairman of the Management Board and to the Management Board at least once a year and communicates the performance results during the meeting of the Internal Control, Operational Risks and Compliance Committee.

Internal Control, Operational Risks and Compliance Committee

Internal Control, Operational Risks and Compliance Committee reviews the information on the activities of the Internal Audit Function and DLSCCFM, the results of internal audits and first level control. The Committee also deals with the issues related to operational risk, development of internal control rules on anti-money laundering and counter – terrorism financing, results of business continuity and/or disaster recovery plans ('BC/DR plans') and other issues.

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[i] On 4 October 2016, the Bank established a new structural subdivision, the Department for legal support, compliance control and financial monitoring, charged with the duties of the Internal Control Function and Department of Financial Monitoring in order to centralize the internal control system.

(thousands of Russian rubles)

21. Risk management (continued)

21.1 Internal control (continued)

Risk management system

The Bank's risk management system is based on the following components:

- Strategy;
- Methodology;
- Procedures;
- Control;
- Updating.

The goal of risk management system is to maintain the overall risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure the maximum safety of assets and equity by mitigation of risk exposures which might lead to unexpected losses.

The goal of the risk management system is achieved through the use of a systemic and complex approach that focuses on the following:

- Risk identification and analysis of all risks arising in the course of the Bank's activities;
- Interpretation of approach to various risk types;
- Quantitative and qualitative assessment (measurement) of specific risk types;
- Establishing correlation between individual risks in order to assess the impact of the actions planned to be taken to limit a particular type of risk on the increase or decrease in the level of other risks;
- Performing full risk level analysis concerning operations planned and completed by the Bank to determine the total amount of risk level;
- Assessment of whether the total amount of risk level is acceptable and reasonable;
- Establishing a subsystem of risk monitoring at the origination phase of negative tendency and a subsystem of swift and adequate response aimed at preventing or mitigating the risk.

Each risk faced by the Bank must be identified and recognized. The risks are classified into internal and external as well as controlled or not controlled by the Bank. Risks are identified on a regular basis due to the fast-evolving internal and external environment.

The management of the Bank determines its approach towards all indicated risks. A part of the risks which the Bank is not ready to assume must be totally excluded, while the Bank terminates activities related to these risks. With regard to the risks assumed, the Bank defines the maximum acceptable risk exposure. The Bank's strategy governs its risk approach.

The Bank's management strategy is based on the break-even principle and focuses on achieving optimum correlation between profitability of the Bank's business activities and level of assumed risks.

The Bank's risk management strategy involves:

- Compliance with the Bank's strategic goals set by the Board of Directors;
- Development of priority lending schemes;
- Effective capital management with the aim to maintain its adequate level.

Risk management strategy implies using the whole range of risk mitigation instruments and choosing each particular instrument depending on the risk type.

Evaluation of various risk types involves various methodologies which are set out in the Bank's internal documents.

The Bank complies with the requirements set by the CBR to risk and capital management systems and internal control.

The Chief Risk Management Officer, the Head of the Internal Audit Function and the Head of Internal Control Function comply with qualification criteria established by Regulation of the CBR No. 3223-U and business reputation requirements set forth by Federal Law No. 395-1.

(thousands of Russian rubles)

21. Risk management (continued)

21.1 Internal control (continued)

Risk reporting

Information on various risks relevant to the Bank is analyzed with the aim of control and early identification of risks, and subsequent communication to the Bank's management.

Risk reporting with various level of detail and different time intervals is performed by the Bank's departments, including the Risk Management Department and Treasury in order to provide the personnel and management of the Bank with the up to date and necessary information on the level of risks relevant to the Bank.

Daily reports include information on the Bank's open currency position, gap analysis of the assets and liabilities maturity gap to assess the liquidity risk, calculation of statutory liquidity ratios, calculation of maximum risk attributable to one borrower or a group of related borrowers, calculation of the Bank's capital adequacy ratios.

Monthly report on interest rate risk testing is reviewed during the Financial Committee of the Bank's Management Board and includes gap analysis of the assets and liabilities maturity gap and the results of the basic scenario testing (change in the interest rate by 100 b.p), results of the stress testing (change in the interest rate by 300-500 b.p.), analysis of changes in the external conditions of the Bank's activities in terms of macroeconomic trends and financial markets analysis.

Monthly report on credit risk testing is reviewed during the Risk Committee of the Bank's management Board and provides information on the quality of the Bank's loan portfolio in aggregate and broken down by interbank loans, financing to car dealers (factoring), retail lending (car loans), state and changes in major quality indicators, overdue debts, their amount, dynamics, structure and timing, the amount of created provisions, collateral quality and credit risk concentration.

DLSCCFM on the quarterly basis provide the Internal Control, Operational Risks and Compliance Committee with information on operating and/or regulatory risks identified.

21.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its borrowers or counterparties failed to discharge their contractual obligations.

The Bank has developed credit policies and procedures for the financing of end consumers and dealers which provide guidelines on evaluation of the borrower's financial performance, procedure for lending decision-making, control over timely repayment of loans.

Credit risk management is performed through:

- Monitoring;
- Setting limits;
- Diversification;
- Scenario analysis.

In accordance with the requirements of the CBR the Bank limits risk concentrations per borrower or group of related borrowers, maximal large credit risk, aggregate risk on Bank's insiders, maximum amount of loans, bank guarantees and sureties provided by the bank to its participants (shareholders). Actual exposures against limits are monitored by the Accounting Department daily.

Additionally, the Bank limits concentrations of exposure to individual customers and counterparties, as well as groups of related customers depending on the level of accepted credit risk.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

(thousands of Russian rubles)

21. Risk management (continued)

21.2 Credit risk (continued)

In the table below loans to banks of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

The Bank classifies liabilities of individuals and legal entities other than banks into two main categories: Standard loans, including those past due but not impaired, and individually impaired loans.

		Neither past due nor impaired				*Individually*	
		High grade	***Standard grade***	***Sub-standard grade***	***Standard loans***	***impaired loans***	***Total***
	Note	***2016***	***2016***	***2016***	***2016***	***2016***	***2016***
Cash and cash equivalents	5	1,914,847	138,207	–	–	–	**2,053,055**
Amounts due from credit institutions	6	–	3,001,796	–	–	–	**3,001,796**
Loans to customers	8				–	–	**–**
Individuals		–	–	–	40,863,640	431,566	**41,295,206**
Legal entities		–	–	–	13,419,027	3,709	**13,422,736**
Investment securities available for sale		–	202,703	–	–	–	**202,703**
Total		**1,914,847**	**3,342,707**	**–**	**54,282,667**	**435,275**	**59,975,496**

		Neither past due nor impaired				*Individually*	
		High grade	***Standard grade***	***Sub-standard grade***	***Standard loans***	***impaired loans***	***Total***
	Note	***2015***	***2015***	***2015***	***2015***	***2015***	***2015***
Cash and cash equivalents	5	691,917	753,040	–	–	–	**1,444,957**
Amounts due from credit institutions	6	–	3,503,781	–	–	–	**3,503,781**
Loans to customers	8						**–**
Individuals		–	–	–	33,415,738	196,716	**33,612,454**
Legal entities		–	–	–	10,760,138	5,472	**10,765,610**
Total		**691,917**	**4,256,821**	**–**	**44,175,876**	**202,188**	**49,326,802**

An analysis of past due loans by age is provided below. The majority of the past due loans are not considered to be impaired.

Aging analysis of past due but not impaired loans per class of financial assets as of 31 December 2016:

		Less than 30 days	***31 to 90 days***	***Total***
	Note	***2016***	***2016***	***2016***
Amounts due from credit institutions		–	–	**–**
Loans to customers	8			
Individuals		629,405	224,448	**853,853**
Legal entities		–	–	**–**
Total		**629,405**	**224,448**	**853,853**

(thousands of Russian rubles)

21. Risk management (continued)

21.2 Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets as of 31 December 2015:

	Note	*Less than 30 days* 2015	*31 to 90 days* 2015	*Total* 2015
Amounts due from credit institutions		–	–	**–**
Loans to customers	8			
Individuals		469,679	153,267	**622,946**
Legal entities		61,569	–	**61,569**
Total		**531,248**	**153,267**	**684,515**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

21.3 Market risk

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

The purpose of market risk management is to maintain the risk accepted by the Bank at the appropriate level defined by the Bank subject to its business strategy. The priority is to ensure maximum safety of assets and equity by reducing (excluding) the possibility of loss incurred on the Bank's operations at financial markets as well as other Bank's operations involving the acceptance of risk exposure.

The Bank manages its market risk by setting open position limits in relation to interest rate repricing and currency positions and stop-loss limits which are monitored on a monthly basis and reviewed and approved by the Management Board.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

As of 31 December 2016, a change in the value of the Russian ruble to other currencies would have caused increase (reduction) in equity and profit or loss as indicated in the following table. This analysis was performed net of tax and is based on the expected change in currency exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016 Increase in the currency exchange rate	*2016 Decrease in the currency exchange rate*
Change in USD to RUB exchange rate (+20%/-20%)	1,149	(1,149)
Change in EUR to RUB exchange rate (+20%/-20%)	72,494	(72,494)
Change in JPY to RUB exchange rate (+25%/-25%)	71,975	(71,975)

	2015 Increase in the currency exchange rate	*2015 Decrease in the currency exchange rate*
Change in USD to RUB exchange rate (+40%/-13%)	1,938	(630)
Change in EUR to RUB exchange rate (+43%/-15%)	127,058	(44,323)
Change in JPY to RUB exchange rate (+47%/-11%)	147,920	(34,620)

(thousands of Russian rubles)

21. Risk management (continued)

21.3 Market risk (continued)

The table below discloses the Bank's currency risk exposure as of 31 December 2016 and 2015. Currency risk is limited and controlled based on the balance between open current position and the Bank's equity. This ratio cannot exceed 10% for each foreign currency and 20% of overall amount of open positions.

	2016					*2015*				
	RUB	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*JPY (RUB equivalent)*	*Total*	*RUB*	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*JPY (RUB equivalent)*	*Total*
Assets										
Cash and cash equivalents	1,950,466	5,745	16,965	79,889	**2,053,065**	1,394,044	4,846	13,010	33,067	**1,444,967**
Obligatory reserve with the CBR	29,397	–	–	–	**29,397**	11,646	–	–	–	**11,646**
Amounts due from credit institutions	2,971,527	–	–	–	**2,971,527**	3,363,630	–	–	–	**3,363,630**
Derivative financial instruments	(1,799,407)	–	1,936,150	–	**136,743**	(19,073,019)	–	10,658,274	11,296,700	**2,881,955**
Loans to customers	53,136,067	–	–	–	**53,136,067**	43,257,756	–	–	–	**43,257,756**
Investment securities available for sale	202,703	–	–	–	**202,703**	200,322	–	–	–	**200,322**
Other assets	70,571	–	–	–	**70,571**	86,637	–	–	–	**86,637**
Total assets	**56,561,324**	**5,745**	**1,953,115**	**79,889**	**58,600,073**	**29,241,015**	**4,846**	**10,671,284**	**11,329,767**	**51,246,912**
Liabilities										
Amounts due to the CBR	–	–	–	–	**–**	2,006,986	–	–	–	**2,006,986**
Amounts due to credit institutions	14,412,985	–	13,421,258	–	**27,834,243**	16,802,531	–	10,375,799	–	**27,178,330**
Derivative financial liabilities	24,682,024	–	(11,830,614)	(9,753,936)	**3,097,474**	–	–	–	–	**–**
Debt securities issued	5,255,000				**5,255,000**	–	–	–	–	**–**
Amounts due to customers	3,636,559	–	–	9,545,925	**13,182,484**	2,609,652	–	–	11,015,044	**13,624,696**
Other liabilities	375,971	–	–	–	**375,971**	582,602	–	–	–	**582,602**
Total liabilities	**48,362,539**	**–**	**1,590,644**	**(208,011)**	**49,745,172**	**22,001,771**	**–**	**10,375,799**	**11,015,044**	**43,392,614**
Net balance sheet position	**8,198,785**	**5,745**	**362,471**	**287,900**	**8,854,901**	**7,239,244**	**4,846**	**295,484**	**314,724**	**7,854,298**

(thousands of Russian rubles)

21. Risk management (continued)

21.4 Interest rate risk

Interest rate risk is the risk of financial losses due to unfavorable changes in interest rates. The Bank's net interest income and the market value of assets and liabilities that are sensitive to changes in interest rates may be subject to interest rate risk.

The Bank applies the method of interest rate assessment in accordance with the Procedure for Preparation and Submission of Reporting Forms 0409127 *Information on Interest Rate Risk* provided for by CBR Ordinance No. 2332-U of 12 November 2009. The Bank includes all balance and off balance sheet financial instruments sensitive to the changes in interest rate risk except for the off balance sheet instruments which are subject to total interest rate risk assessment in accordance with Regulation No. 387-P. Such off-balance sheet financial instruments include currency-interest rate swaps.

31 December 2016	***Less than 30 days***	***31 to 90 days***	***91 to 180 days***	***181 days to 1 year***	***More than 1 year***	***Not sensitive to changes in interest rate***	***Total***
Total balance sheet assets and off-balance sheet claims	7,409,411	13,876,867	6,564,749	10,487,098	29,450,110	2,066,749	**69,854,984**
Total balance sheet liabilities and off-balance sheet obligations	5,800,259	18,310,805	17,360,746	23,383,564	28,175,819	21,778,553	**114,809,746**
Accumulated gap	**1,609,152**	**(4,433,938)**	**(10,795,997)**	**(12,896,466)**	**1,274,291**	**x**	**x**
Gap ratio (accumulated relative gap, cumulative total)	1.28	0.88	0.67	0.59	x	x	**x**
Change in net interest income:							
+200 basis points	30,841	(73,896)	(134,950)	(64,482)	x	x	**x**
-200 basis points	(30,841)	73,896	134,950	64,482	x	x	**x**
Time ratio	0.9583	0.8333	0.625	0.25	x	x	**x**

31 December 2015	***Less than 30 days***	***31 to 90 days***	***91 to 180 days***	***181 days to 1 year***	***More than 1 year***	***Not sensitive to changes in interest rate***	***Total***
Total balance sheet assets and off-balance sheet claims	8,227,887	11,978,145	6,059,930	10,468,371	25,780,608	1,640,897	**64,155,838**
Total balance sheet liabilities and off-balance sheet obligations	6,041,765	12,117,019	23,887,374	17,075,912	33,159,498	11,570,403	**103,851,971**
Accumulated gap	**2,186,122**	**(138,874)**	**(17,827,444)**	**(6,607,541)**	**(7,378,890)**	**x**	**x**
Gap ratio (accumulated relative gap, cumulative total)	1.36	1.11	0.62	0.62	x	x	**x**
Change in net interest income:							
+400 basis points	83,798	(4,629)	(445,686)	(66,075)	x	x	**x**
-400 basis points	(83,798)	4,629	445,686	66,075	x	x	**x**
Time ratio	0.9583	0.8333	0.6250	0.2500	x	x	**x**

The tables below summarize the impact on the statement of profit or loss and equity of the assumed increase or decrease in interest rates. Negative amounts in the table reflect a potential net reduction in the statement of financial results or equity, while positive amounts reflect net potential increase.

For 2016, we used a change in the ruble interest rate by 2%, euro rates by 0.12% and yen rates by 0.12%.

(thousands of Russian rubles)

21. Risk management (continued)

21.4 Interest rate risk (continued)

For 2015, we used a change in the ruble interest rate by 4%, euro rates by 0.25% and yen rates by 0.25%.

31 December 2016	*RUB*	*USD*	*EUR*	*JPY*	*Total*
Increased in exchange rate	300,400	–	(29,639)	(4,291)	**266,470**
Decreased in exchange rate	(300,400)	–	29,639	4,291	**(266,470)**

31 December 2015	*RUB*	*USD*	*EUR*	*JPY*	*Total*
Increased in exchange rate	247,043	–	(44,995)	2,518	**204,566**
Decreased in exchange rate	(247,043)	–	44,995	(2,518)	**(204,566)**

21.5 Operational risk

Operational risk is one of the main risks inherent to the Bank's operations. Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and/or non-compliance with applicable legislation of internal practices and procedures of banking and other transactions, their breach by the employees of the Bank and/or other persons (through inadvertent or deliberate actions or omission to act), inappropriate (insufficient) functionalities (specifications) of IT and other systems applied by the Bank and/or their failures (malfunctions), or ensuing from the effect of external events.

The Bank's operational risk management policy involves prevention of operational risk and identification of new operational risks arising in the course of the Bank's activities and also develops procedures to identify, evaluate and prevent these risks.

The Bank manages its operational risk in accordance with CBR Letter No. 76-T of 24 May 2005 *On Organizing Management of Operational Risks in Credit Institutions* and recommendations of the Basel Committee on banking supervision.

Operational risk management system is based on principle of segregating powers and duties among all levels of the Bank's Management.

Risk management department regularly provides operational risk report that covers data on the level of operational risk across the Bank's business lines, risk mitigation measures, etc. The report is presented to heads of structural units, executive bodies and the Board of Directors.

The Bank assesses operational risk in accordance with CBR Regulation No. 346-P of 3 November 2009 *On the Procedure for Calculating Operational Risk Exposure*.

The Internal Control, Operational Risks and Compliance Committee considers various issues on a quarterly basis, including operational risk management reviews, first level control results, identified instances of the operational risk, results of the BC/DR plan testing, an action plan developed based on the results of the BC/DR plan testing, incidents in the Bank's information systems, and other issues.

Information on the identified instances of external fraud, respective measures taken, a number of fraud instances prevented by the Bank, statistics on the customer requests, their reasons and respective measures taken are considered at the meetings of the Operating Committee of the Bank's Management Board on a monthly basis.

The operational risk management strategy selected by the Bank determines that the Internal Control, Operational Risks and Compliance Committee and the Operating Committee of the Management Board should take primary responsibility for the timely management of operational risks.

Compliance with prudential ratios

In 2016 and 2015, the Bank complied with prudential ratios set by the CBR.

(thousands of Russian rubles)

21. Risk management (continued)

21.6 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations or make current payments on instructions of its customers unless it will restructure its assets and/or urgently mobilize adequate funds for making such payments. Liquidity risk arises when the maturity of assets and liabilities does not match.

Liquidity management policy was developed in the Bank to ensure control over liquidity and meet its payment obligations in full and on a timely basis. The liquidity management policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Development of fund-raising plans using borrowed funds;
- Maintaining liquidity and funding contingency plans;
- Monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and projected cash flows arising from projected future business. Then it provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term funds in credit institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Any decisions on the liquidity management policy are taken by the Finance Committee and implemented by the Treasury. Summary of the report prepared by the Treasury is communicated to the Management of the Bank and the Board of Directors.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

	2016, %	*2015, %*
N2 “Instant Liquidity Ratio” (assets receivable or realizable within one day / liabilities repayable on demand; statutory ratio >=15%)	140.1	91.7
N3 “Current Liquidity Ratio” (assets receivable or realizable within 30 days / liabilities repayable within 30 days; statutory ratio >=50%)	279.9	291.8
N4 “Long-Term Liquidity Ratio” (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year; statutory ratio <=120%)	77.8	60.1

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

As at 31 December 2016	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Debt securities issued	260,700	–	260,700	7,085,723	–	–	**7,607,123**
Amounts due to credit institutions	–	6,042,911	10,658,432	12,320,919	–	–	**29,022,261**
Deliverable derivative financial instruments:	–	–	–	–	–	–	**–**
- Cash inflow	(22,752)	(1,956,806)	(10,411,257)	(11,129,886)	–	–	**(23,520,701)**
- Cash outflow	169,833	2,543,801	11,853,242	11,914,555	–	–	**26,481,431**
Amounts due to customers	1,457,938	2,620	4,549,660	7,864,941	–	–	**13,875,159**
Other liabilities	30,029	345,942	–	–	–	–	**375,971**
Total liabilities	**1,895,748**	**6,978,468**	**16,910,777**	**28,056,252**	**–**	**–**	**53,841,245**

(thousands of Russian rubles)

21. Risk management (continued)

21.6 Liquidity risk (continued)

As at 31 December 2015	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Amounts due to the CBR	–	–	2,071,260	–	–	–	**2,071,260**
Amounts due to credit institutions	663,797	2,580,257	12,661,558	12,613,104	–	–	**28,518,716**
Deliverable derivative financial instruments:							
- Cash inflow	(11,972)	(61,706)	(10,603,476)	(11,277,820)	–	–	**(21,954,974)**
- Cash outflow	–	78,957	10,779,000	8,215,062	–	–	**19,073,019**
Amounts due to customers	1,051,419	2,250	35,954	13,566,704	–	–	**14,656,327**
Other liabilities	396,084	17,624	–	168,894	–	–	**582,602**
Total liabilities	**2,099,328**	**2,617,382**	**14,944,296**	**23,285,944**	**–**	**–**	**42,946,950**

Risks assumed by the Bank

As of 31 December 2016, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	2,053,065	–	–	–	–	–	**2,053,065**
Obligatory reserve with the CBR	–	–	–	–	–	29,397	**29,397**
Amounts due from credit institutions	2,971,527	–	–	–	–	–	**2,971,527**
Derivative financial assets	8,311	128,432	–	–	–	–	**136,743**
Loans to customers	3,027,958	13,194,826	14,167,259	22,694,442	51,582	–	**53,136,067**
Investment securities available for sale	–	–	59,343	52,156	91,204	–	**202,703**
Property and equipment	–	–	–	–	–	18,533	**18,533**
Intangible assets	–	–	–	–	–	355,146	**355,146**
Income Tax						120,225	**120,225**
Deferred income tax assets	–	–	–	–	–	864,603	**864,603**
Other assets	20,922	18,092	32,946	20,102	–	–	**92,062**
Total assets	**8,081,783**	**13,341,350**	**14,259,548**	**22,766,700**	**142,786**	**1,387,904**	**59,980,071**
Liabilities							
Debt securities issued	255,000	–	–	5,000,000	–	–	**5,255,000**
Amounts due to credit institutions	–	5,883,378	10,228,094	11,722,771	–	–	**27,834,243**
Derivative financial liabilities:	155,392	715,427	1,441,986	784,669	–	–	**3,097,474**
Amounts due to customers	1,458,247	2,620	4,405,264	7,316,353	–	–	**13,182,484**
Other liabilities	235,201	1,013,419	576,305	61,687	–	–	**1,886,612**
Total liabilities	**2,103,840**	**7,614,844**	**16,651,649**	**24,885,480**	**–**	**–**	**51,255,813**
Net position	**5,977,943**	**5,726,506**	**(2,392,102)**	**(2,118,779)**	**142,786**	**1,387,904**	**8,724,259**

(thousands of Russian rubles)

21. Risk management (continued)

21.6 Liquidity risk (continued)

As of 31 December 2015, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	1,444,967	–	–	–	–	–	**1,444,967**
Obligatory reserve with the CBR	–	–	–	–	–	11,646	**11,646**
Amounts due from credit institutions	3,363,630	–	–	–	–	–	**3,363,630**
Derivative financial assets	11,972	(17,251)	(175,524)	3,062,758	–	–	**2,881,955**
Loans to customers	2,233,754	10,025,517	9,997,396	20,993,745	7,344	–	**43,257,756**
Investment securities available for sale	24,844	74,236	–	–	101,242	–	**200,322**
Property and equipment	–	–	–	–	–	10,486	**10,486**
Intangible assets	–	–	–	–	–	455,956	**455,956**
Income Tax						32,487	**32,487**
Deferred income tax assets	–	–	–	–	–	593,695	**593,695**
Other assets	87,344	4,811	8,966	18,775	–	–	**119,897**
Total assets	**7,166,511**	**10,087,315**	**9,830,838**	**24,075,278**	**108,586**	**1,104,269**	**52,372,797**
Liabilities							
Amounts due to the CBR	–	–	2,006,986	–	–	–	**2,006,986**
Amounts due to credit institutions	660,744	2,532,668	12,044,808	11,940,110	–	–	**27,178,330**
Amounts due to customers	1,051,419	2,250	35,951	12,535,076	–	–	**13,624,696**
Other liabilities	550,856	944,853	10,623	203,521	–	–	**1,709,853**
Total liabilities	**2,263,019**	**3,479,771**	**14,098,368**	**24,678,707**	**–**	**–**	**44,519,865**
Net position	**4,903,491**	**6,640,031**	**(4,267,531)**	**(603,429)**	**108,586**	**1,104,269**	**7,852,930**

21.7 Legal risk

Legal risks inherent to the Bank's activities are as follows:

- Risks to perform transactions that are considered invalid in accordance with the applicable legislation of the Russian Federation;
- Risks to conclude agreements containing inadequate provisions concerning the Bank's responsibility or provisions that may cause significant impairment of assets or growing liabilities of the Bank;
- Risks of unfavorable outcome of litigations involving the Bank;
- Risks arising from changes in applicable legislation and judicial practices pertaining to key business issues of the Bank.

To manage the legal risk, the Bank applies internal rules for the approval and sign-off of legally significant documents. As regards its core activities, the Bank develops and uses standard contract templates as well as regularly monitors the effective legislation and promptly communicates key changes that are significant to the Bank to its management and personnel of the business units involved. The Bank has internal rules for the approval and sign-off of the Bank's responses to certain claims (complaints) made by its customers and requests submitted by state authorities. Moreover, the Bank has a process in place ensuring that new contracts that are significant to the Bank comply with effective legislation and that counterparties that are legal entities have due legal capacity. The overall law enforcement practice applicable to the Bank's operations is being established.

The above risks are not specific to the Bank but inherent to all financial institutions.

Current and potential claims against the Bank

As of 31 December 2016, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial and business performance.

(thousands of Russian rubles)

21. Risk management (continued)

21.8 Strategic risk

Strategic risk is a risk of losses which the Bank may incur as result of mistakes (deficiencies) in making decisions defining the Bank's strategy due to lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lack or insufficient resources required (financial, material and technical, etc.).

The Management Board formulates the development strategy of the Bank for a period from three to five years as well as a business plan for the current financial year, which are approved by the Board of Directors. The Management Board is informed on the business plan implementation for the current financial year on a monthly basis and the development strategy implementation on an annual basis. The Management Board introduces respective amendments to the strategy and the business plan, if necessary, which are subsequently approved by the Board of Directors.

21.9 Reputational risk

The Bank has consistent corporate reputation, promotes positive image of the Bank, quality of its services and nature of its business in general, based on the actual operating results. The risk that the Bank may incur losses as a result of business reputation deterioration is assessed by the Management of the Bank as minimal.

21.10 Country risk

Country risk (including non-payment risk) is a risk that the Bank may incur losses as a result of foreign counterparties (legal or individual persons) failing to meet their obligations or doing that improperly due to economic, political and social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to specifics of the national legislation (irrespective of the counterparty's financial position).

The Bank is the resident in the Russian Federation and is operating in the Russian Federation.

The Bank engages in transactions with non-resident counterparties registered in the EU, the USA and Japan.

22. Fair value measurements

Fair value hierarchy

The Bank 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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(thousands of Russian rubles)

22. Fair value measurements (continued)

Fair value hierarchy (continued)

As of 31 December 2016, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investment securities available for sale	202,703	–	–	**202,703**
Derivative financial instruments	–	136,743	–	**136,743**
Total assets measured at fair value	**202,703**	**136,743**	**–**	**339,446**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	2,053,065	–	**2,053,065**
Amounts due from credit institutions	–	2,971,527	–	**2,971,527**
Loans to customers	–	–	51,776,034	**51,776,034**
Other assets	–	–	70,571	**70,571**
Total assets for which fair values are disclosed	**–**	**5,024,592**	**51,846,605**	**56,871,197**
Liabilities measured at fair value				
Derivative financial instruments	–	3,097,474	–	**3,097,474**
Total liabilities for which fair values are disclosed	**–**	**3,097,474**	**–**	**3,097,474**
Liabilities for which fair values are disclosed				
Debt securities issued	–	5,180,761	–	**5,180,761**
Amounts due to credit institutions	–	27,241,565	–	**27,241,565**
Amounts due to customers	–	–	12,755,665	**12,755,665**
Other liabilities	–	–	375,971	**375,971**
Total liabilities for which fair values are disclosed	**–**	**32,422,326**	**13,131,636**	**45,553,962**

As of 31 December 2015, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investment securities available for sale	200,322	–	–	**200,322**
Derivative financial instruments	–	2,881,955	–	**2,881,955**
Total assets measured at fair value	**200,322**	**2,881,955**	**–**	**3,082,277**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,444,967	–	**1,444,967**
Amounts due from credit institutions	–	3,363,630	–	**3,363,630**
Loans to customers	–	–	41,057,488	**41,057,488**
Other assets	–	–	86,637	**86,637**
Total assets for which fair values are disclosed	**–**	**4,808,597**	**41,144,125**	**45,952,722**
Liabilities for which fair values are disclosed				
Amounts due to the CBR	–	2,006,986	–	**2,006,986**
Amounts due to credit institutions	–	27,163,999	–	**27,163,999**
Amounts due to customers	–	–	13,540,362	**13,540,362**
Other liabilities	–	–	582,602	**582,602**
Total liabilities for which fair values are disclosed	**–**	**29,170,985**	**14,122,964**	**43,293,949**

(thousands of Russian rubles)

22. Fair value measurements (continued)

Financial instruments not recorded at fair value in the statement of financial position

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

	31 December 2016			*31 December 2015*		
	Carrying amount	*Fair value*	*Unrecognized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognized gain/(loss)*
Financial assets						
Cash and cash equivalents	2,053,065	2,053,065	–	1,444,967	1,444,967	–
Amounts due from credit institutions	2,971,527	2,971,527	–	3,363,630	3,363,630	–
Loans to customers	53,136,067	51,776,034	(1,360,033)	43,257,756	41,057,488	(2,200,268)
Other assets	70,571	70,571	–	86,637	86,637	–
Total financial assets	**58,231,230**	**56,871,197**	**(1,360,033)**	**48,152,990**	**45,952,722**	**(2,200,268)**
Financial liabilities						
Amounts due to the CBR	–	–	–	2,006,986	2,006,986	–
Amounts due to credit institutions	27,834,243	27,241,565	592,678	27,178,330	27,163,999	14,331
Amounts due to customers	13,182,484	12,755,665	426,819	13,624,696	13,540,362	84,334
Debt securities issued	5,255,000	5,180,761	74,239	–	–	–
Other liabilities	375,971	375,971	–	582,602	582,602	–
Total financial liabilities	**46,647,698**	**45,553,962**	**1,093,736**	**43,392,614**	**43,293,949**	**98,665**
Total unrecognized change in fair value			**(266,297)**			**(2,101,603)**

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

23. Segment reporting

The Bank determined operating segments based on its organizational structure. The information on operating segments is presented in the same manner as the internal reporting is presented to the Management Board.

For the purposes of this disclosure, "operating segments" are determined by the Bank based on the definition specified in IFRS 8 *Operating Segments*.

(thousands of Russian rubles)

23. Segment reporting (continued)

For the management purposes, the Bank's activities are divided into three business segments:

- Corporate banking – provision of financing to car dealers, maintenance of term deposits placed by corporate customers;
- Retail banking – provision of loans to retail customers (car loans) and rendering of related financial services;
- In-house activities – interbank lending, trading with securities, foreign currencies and derivative financial instruments, and other internal transactions.

The management monitors operating results separately for each business unit for the purpose of making decisions on the resource allocation and performance assessment.

Transfer prices for transactions between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

Information on each segment is reviewed using the methods similar to those applied in making decisions on the resource allocation between segments and performance assessment.

The breakdown of the Bank's assets and liabilities by operating segment in 2016 and 2015 is shown in the table below.

	31 December 2016	*31 December 2015*
Assets		
Retail banking	40,533,320	33,267,255
Corporate banking	12,602,748	9,990,501
In-house activities	6,844,003	9,115,040
Total assets	**59,980,071**	**52,372,796**
Liabilities		
Retail banking	1,396,277	1,042,206
Corporate banking	113,543	47,414
In-house activities	49,745,993	43,430,245
Total liabilities	**51,255,813**	**44,519,865**

The analysis of the Bank's income and expenses by segment for the year ended 31 December 2016 and 2015 is shown in the table below.

	2016					*2015*				
	Retail banking	*Corporate banking*	*In-house activities*	*Recon-ciliation**	*Total*	*Retail banking*	*Corporate banking*	*In-house activities*	*Recon-ciliation*	*Total*
Revenue										
Interest income	6,712,704	1,895,605	668,009	–	**9,276,318**	4,806,116	1,348,515	473,660	–	**6,628,291**
Fee and commission income	–	74,305	–	–	**74,305**	–	50,236	–	–	**50,236**
Total revenue	**6,712,704**	**1,969,910**	**668,009**	**–**	**9,350,623**	**4,806,116**	**1,398,751**	**473,660**	**–**	**6,678,527**
Expenses										
Interest expense	(3,777,264)	(1,052,798)	(1,095,227)	1,553,447	**(4,371,842)**	(2,889,030)	(915,069)	(142,364)	875,620	**(3,070,843)**
Fee and commission expense	(125,199)	–	–	–	**(125,199)**	(111,954)	–	–	–	**(111,954)**
Allowance for impairment	(416,688)	(44,879)	109,882	–	**(351,685)**	(291,508)	377	(126,639)	–	**(417,770)**
Non-interest expense/(income)	–	–	425,485	(1,553,447)	**(1,127,962)**	–	–	(203,747)	(874,810)	**(1,078,557)**
Other administrative expenses	(1,317,417)	(240,605)	–		**(1,558,022)**	(1,319,698)	(186,061)	(81,383)	–	**(1,587,142)**
Total expenses	**(5,636,568)**	**(1,338,282)**	**(559,860)**	**–**	**(7,534,710)**	**(4,612,190)**	**(1,100,753)**	**(554,133)**	**810**	**(6,266,266)**
Profit/(loss) before income tax expense	**1,076,136**	**631,628**	**108,149**	**–**	**1,815,913**	**193,926**	**297,998**	**(80,473)**	**810**	**412,261**
Income tax expense	(317,737)	(99,951)	–	–	**(417,688)**	(16,666)	(4,406)	–	–	**(21,072)**
Total net profit for the year	**758,399**	**531,677**	**108,149**	**–**	**1,398,225**	**177,260**	**293,592**	**(80,473)**	**810**	**391,189**

* The differences relate to the effect of hedging transactions in 2014 and transactions that did not pass hedge effectiveness test.

In 2016 and 2015, the Bank had no revenue from transactions with a single external customer or counterparty that would amount to 10% or more of its total revenue.

(thousands of Russian rubles)

24. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, 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 financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

24.1 Transactions with the members of the Supervisory Board and the Management Board

The total compensations to the members of the Supervisory Board and the Management Board included in personnel expenses in 2016 and 2015 amounted to RUB 88,154 thousand and RUB 89,543 thousand, respectively.

24.2 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions.

The Bank entered into transactions with related parties as part of its normal business. There is no increased risk of arrears or other unfavorable events resulting from such transactions.

The Bank's related parties are as follows

As a result of a share sale and purchase transaction, BARN B.V., a limited liability company (the Kingdom of the Netherlands) became the Bank's sole shareholder as of 30 August 2013. Ownership interest: 100.00%.

The direct owners of the Bank are:

- UniCredit Bank Italy S.p.A – 40%;
- Renault S.A., France – 30%;
- Nissan Motor Co., Ltd., Japan – 30%.

The shares above are indicated without taking into account the ownership of Reno S.A. France in the share capital of Nissan Motor Co., Ltd., Japan, which as of December 31, 2016 was 43%.

	31 December 2016	*31 December 2015*
Shareholders	BARN B.V.	BARN B.V.
Transactions with other related parties	AO UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. Renault Finance S.A. RNGM S.A. OOO Nissan Manufacturing RUS OOO RN Finance RUS Nissan Motor Acceptance Corporation CJSC Renault Russia DIAC AO NPF AVTOVAZ	AO UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. Renault Finance S.A. RNGM S.A. OOO Nissan Manufacturing RUS OOO RN Finance RUS Representative office of RCI Banque S.A. CJSC Renault Russia DIAC

(thousands of Russian rubles)

24. Related party disclosures (continued)

24.2 Transactions with related parties (continued)

The outstanding balances of, and gains and losses resulting from, transactions with related parties are presented below:

	31 December 2016		*31 December 2015*	
	Shareholder	*Other related parties*	*Shareholder*	*Other related parties*
Assets				
Cash and cash equivalents	–	57,950	–	11,306
Loans to customers	–	159,581	–	157,145
Financial assets at fair value through profit or loss	–	136,743	–	2,881,955
Other assets	–	69,662	–	–
Total assets	**–**	**423,936**	**–**	**3,050,406**
Liabilities				
Amounts due to credit institutions	–	27,828,851	–	22,971,981
Financial liabilities at fair value through profit or loss	–	2,681,101	–	–
Amounts due to customers		11,215,174		12,536,920
Other liabilities	–	4,737	–	4,304
Total liabilities	**–**	**41,729,863**		**35,513,205**
Commitments and guarantees received	–	190,830	–	29,555

	2016		*2015*	
Interest income	–	1,793,852	–	1,363,676
Interest expense	–	(2,544,786)	(426)	(2,503,089)
Fee and commission income	–	72,899	–	50,236
Fee and commission expense	–	(55,305)	–	(43,106)
Net gains and losses from financial instruments	–	(3,327,537)	–	1,767,534
Other operating income	–	1,258	–	5,914
Other operating expenses	–	(51,340)	–	(77,607)
Net gains/(losses) from foreign currencies	–	2,114,326	34,325	(2,961,476)

25. Capital management

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

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

(thousands of Russian rubles)

26. CBR capital adequacy ratio

Under the requirements set by the CBR, banks have to maintain a capital adequacy ratio of at least 8% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

	1 January 2017	*1 January 2016*
Share capital (ordinary shares)	3,269,000	3,269,000
Share premium	5,580,800	5,580,800
Statutory reserve	67,190	11,006
Profit of prior years (audited)	292,157	739,531
Loss of the current year*	–	(530,961)
Loss of prior years*	–	–
Intangible assets*	(251,388)	(1,003)
Negative value of additional capital*	(454,294)	(1,504)
Common equity capital	**8,503,465**	**9,066,869**
Intangible assets*	(167,592)	(1,504)
Negative value of additional capital*	(286,702)	–
Additional capital	**–**	**–**
Core capital	**8,503,465**	**9,066,869**
Current year profit (unaudited)	1,798,045	–
Income not recognized as source of capital and generated from amounts due to credit institution	(2,080,824)	–
Amount of additional charge on outstanding loans	(3,923)	–
Supplementary capital	**–**	**–**
Equity (capital)	**8,503,465**	**9,066,869**
Common equity capital adequacy ratio, % (N1.1) (minimum is set at 4.5%)	12.6%	17.9%
Core capital adequacy ratio, % (N1.2) (minimum is set at 6.0%)	12.6%	17.9%
Equity (capital) adequacy ratio, % (N1.0) (minimum is set at 8.0%)	12.6%	17.9%

* Amounts decreasing the item.

In 2016 and 2015, the Bank's operations complied with all externally imposed capital requirements.

Chairman of the Management Board
Bruno Robert Louis Kintzinger

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г.МОСКВА

Chief Accountant
Darya Lvova