PJSC “Bank Saint Petersburg” Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report

31 December 2016

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JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditor's Report

To the Shareholders and Supervisory Board of PJSC "Bank Saint Petersburg"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PJSC "Bank Saint Petersburg" (the Bank) and its subsidiaries (together with the Bank referred to as the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Allowance for impairment of loans and advances to legal entities

Please refer to the Note 11 in the consolidated financial statements.

The key audit matter	***How the matter was addressed in our audit***
The Group has significant balances of loans and advances to legal entities that represents 44% from total assets. Allowance for impairment represents management's best estimate of the losses incurred within loans and advances to legal entities as at 31 December 2016. They are calculated on a collective basis for loans and advances without individual signs of impairment that have a similar credit risk nature and on an individual basis for loans and advances with specific indicators of impairment. Collective allowance for impairment is calculated using statistical model of history of losses. The inputs to the model are subject to management's professional judgment. Assessment of allowance for impairment on individual basis requires application of significant judgments to determine when impairment event has occurred and then to estimate the expected future cash flows. Based on above we believe that allowance for impairment of loans and advances to legal entities is a key audit risk.	We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans and advances to legal entities. With respect to collective impairment, we compared collective allowance for impairment calculated by management with results of our own assessment and our re-calculation made based on historical losses of loan portfolio. For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically challenged the assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and available market information. We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

- the Bank's compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia; and
- compliance of elements of the Bank's internal control and organisation of its risk management systems with requirements established by the Bank of Russia

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

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Bank's compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Lukashova N. V.:

JSC "KPMG"

20 March 2017

Moscow, Russian Federation

PJSC "Bank Saint Petersburg" Group
Consolidated Statement of Financial Position as at 31 December 2016

In thousands of Russian Roubles	**Note**	**2016**	**2015**
ASSETS			
Cash and cash equivalents	6	33 881 204	36 558 917
Mandatory reserve deposits with the Central Bank of the Russian Federation		3 220 803	2 388 138
Trading securities	7	17 126 047	13 193 472
Securities pledged under sale and repurchase agreements and loaned	8	61 800 246	70 314 051
Reverse sale and repurchase agreements	9	58 499 452	15 220 590
Derivative financial assets		5 537 975	4 974 795
Due from banks	10	33 371 758	35 122 584
Loans and advances to customers			
- loans and advances to legal entities	11	256 602 220	283 556 953
- loans and advances to individuals	11	58 108 845	51 745 147
Investment securities available-for-sale	12	26 477 508	27 849 192
Investment property	13	5 726 225	3 162 532
Premises, equipment and intangible assets	14	14 304 980	14 476 946
Other assets	15	4 553 272	2 978 400
Long-term assets held-for-sale	16	1 076 985	992 859
TOTAL ASSETS		**580 287 520**	**562 534 576**
LIABILITIES			
Due to banks	17	131 721 767	135 340 796
Customer accounts	18	349 944 868	325 583 950
Financial liabilities at fair value	9	4 223 164	870 262
Derivative financial liabilities		2 929 752	498 661
Bonds issued	19	15 882 715	19 200 016
Promissory notes and deposit certificates issued	20	7 882 284	17 441 146
Other borrowed funds	21	2 504 143	2 642 299
Other liabilities	22	4 329 861	4 173 962
TOTAL LIABILITIES		**519 418 554**	**505 751 092**
EQUITY			
Share capital	23	3 721 734	3 721 734
Share premium	23	21 393 878	21 393 878
Revaluation reserve for premises		3 820 496	3 820 496
Revaluation reserve for investment securities available-for-sale		1 793 138	1 596 286
Retained earnings		30 139 720	26 251 090
TOTAL EQUITY		**60 868 966**	**56 783 484**
TOTAL LIABILITIES AND EQUITY		**580 287 520**	**562 534 576**

Approved for issue and signed on behalf of the Management Board on 20 March 2017.

M. Mancinskis
First Deputy Chairman of the Management Board,
Chief Executive Officer

N.G. Tomilina
Chief Accountant

The notes are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2016	2015
Interest income	25	51 851 810	50 793 475
Interest expense	25	(29 706 921)	(33 315 993)
Net interest income		**22 144 889**	**17 477 482**
Provision for loan impairment	10,11	(12 490 106)	(12 293 143)
Net interest income after provision for loan impairment		**9 654 783**	**5 184 339**
Net gains from trading securities		577 752	839 259
Net gains from investment securities available-for-sale		982 912	474 793
Net gains from trading in foreign currencies and foreign exchange translations		5 139 695	9 043 846
Net losses from derivatives		(2 531 542)	(4 178 591)
Fee and commission income	26	5 830 457	4 772 338
Fee and commission expense	26	(1 130 938)	(730 028)
Provision for credit related commitments	22	(561 303)	(134 901)
Provision for non-financial commitments		(145 936)	-
Provision for impairment of investment property		(18 470)	-
Loss on disposal of non-current assets held-for-sale		(261 014)	-
Other net operating income		335 461	317 438
Administrative and other operating expenses:	27		
- Staff costs		(5 628 561)	(4 473 777)
- Costs related to premises and equipment		(1 673 593)	(1 328 500)
- Other administrative and operating expenses		(5 436 448)	(5 039 192)
Profit before tax		**5 133 255**	**4 747 024**
Income tax expense	28	(855 445)	(1 128 509)
Profit for the year		**4 277 810**	**3 618 515**
Other comprehensive income			
Items that are or will be reclassified subsequently to profit or loss:			
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		(982 912)	(727 652)
Gain from revaluation of investment securities available-for-sale		1 228 977	3 265 377
Deferred income tax recognised in equity related to components of other comprehensive income		(49 213)	(507 545)
Other comprehensive income for the year, net of income tax	24	**196 852**	**2 030 180**
Total comprehensive income for the year		**4 474 662**	**5 648 695**
Basic and diluted earnings per share (in Russian Roubles per share)	29	**9,76**	**8,33**

M. Mancinskis
First Deputy Chairman of the Management Board,
Chief Executive Officer

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Retained earnings	Total equity
Balance as at 1 January 2015		**3 696 674**	**21 393 878**	**3 901 555**	**(433 894)**	**22 736 128**	**51 294 341**
Other comprehensive income recognised in equity	24	-	-	-	2 030 180	-	2 030 180
Profit for the year		-	-	-	-	3 618 515	3 618 515
Disposal of premises		-	-	(81 059)	-	81 059	-
Total comprehensive income for 2015		**-**	**-**	**(81 059)**	**2 030 180**	**3 699 574**	**5 648 695**
Sales of treasury shares	23	25 060	-	-	-	705 441	730 501
Dividends declared							
- ordinary shares	30	-	-	-	-	(887 842)	(887 842)
- preference shares	30	-	-	-	-	(2 211)	(2 211)
Balance as at 31 December 2015		**3 721 734**	**21 393 878**	**3 820 496**	**1 596 286**	**26 251 090**	**56 783 484**
Other comprehensive income recognised in equity	24	-	-	-	196 852	-	196 852
Profit for the year		-	-	-	-	4 277 810	4 277 810
Total comprehensive income for 2016		**-**	**-**	**-**	**196 852**	**4 277 810**	**4 474 662**
Purchase of treasury shares	23	-	-	-	-	(580 202)	(580 202)
Sales of treasury shares	23	-	-	-	-	652 546	652 546
Dividends declared							
- ordinary shares	30	-	-	-	-	(459 313)	(459 313)
- preference shares	30	-	-	-	-	(2 211)	(2 211)
Balance as at 31 December 2016		**3 721 734**	**21 393 878**	**3 820 496**	**1 793 138**	**30 139 720**	**60 868 966**

M. Mancinskis
First Deputy Chairman of the Management Board,
Chief Executive Officer

N.G. Tomilina
Chief Accountant

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "БАНК "САНКТ-ПЕТЕРБУРГ" (ПАО) * ИНН 7831000027 * "Банк "Санкт-Петербург" (ПАО "Банк "Санкт-Петербург")
БАНК САНКТ-ПЕТЕРБУРГ

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Interest received on loans and correspondent accounts		40 850 688	41 327 987
Interest received on securities		9 617 277	7 143 237
Interest received on reverse sale and repurchase agreements		1 969 344	2 234 430
Interest paid on due to banks		(11 043 718)	(10 929 952)
Interest paid on customer accounts		(17 490 154)	(18 327 227)
Interest paid on other debt securities issued		(641 880)	(441 769)
Net losses from trading securities		(96 510)	(69 842)
Net gains from trading in foreign currencies		9 173 548	1 434 816
Net losses from transactions with derivatives		(663 631)	(1 592 892)
Fee and commissions received		5 805 878	4 814 621
Fee and commissions paid		(1 130 938)	(730 028)
Other operating income received		334 997	304 180
Staff costs paid		(5 352 206)	(4 371 292)
Premises and equipment costs paid		(768 815)	(551 450)
Administrative and other operating expenses paid		(5 542 069)	(5 031 644)
Income tax (paid) received		(3 271 264)	285 941
Cash flows from operating activities before changes in operating assets and liabilities		**21 750 547**	**15 499 116**
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory reserve deposits with the Central Bank of the Russian Federation		(832 665)	901 946
Net increase in trading securities		(21 676 598)	(17 270 410)
Net (increase) decrease in reverse sale and repurchase agreements		(44 290 141)	14 260 421
Net decrease (increase) in due from banks		1 203 370	(4 227 627)
Net increase in loans and advances to customers		(5 966 367)	(12 140 987)
Net decrease in other assets		297 235	971 218
Net increase in due to banks		1 067 635	31 343 282
Net increase in customer accounts		40 071 025	8 137 536
Net increase (decrease) in financial liabilities at fair value		3 352 902	(1 793 896)
Net decrease in promissory notes and deposit certificates issued		(7 673 167)	(2 056 067)
Net increase (decrease) in other liabilities		863 914	(1 400 337)
Net cash (used in) received from operating activities		**(11 832 310)**	**32 224 195**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	14	(1 287 725)	(795 972)
Proceeds from disposal of premises and equipment and intangible assets		1 149	105 742
Net decrease (increase) in investment securities available-for-sale		14 604 978	(42 221 710)
Net proceeds from disposal of investment securities available-for-sale		982 912	459 402
Proceeds from disposal of long-term assets held-for-sale		1 024 389	413 039
Proceeds from disposal of investment property		-	5 100
Dividend income received		3 564	10 522
Net cash received from (used in) investing activities		**15 329 267**	**(42 023 877)**

In thousands of Russian Roubles	Note	2016	2015
Cash flows from financing activities			
Purchase of treasury shares	23	(580 202)	-
Sale of treasury shares	23	652 546	730 501
Proceeds from other borrowed funds		568 387	344 471
Repayment of other borrowed funds		(486 721)	(3 831 324)
Proceeds from bonds issued		1 004 300	-
Redemption of bonds issued		(1 128 125)	(9 376 171)
Interest paid on bonds issued		(1 756 424)	(2 334 140)
Interest paid on other borrowed funds		(128 681)	(258 739)
Dividends paid	30	(461 255)	(888 414)
Net cash used in financing activities		**(2 316 175)**	**(15 613 816)**
Effects of exchange rate changes on cash and cash equivalents		**(3 858 495)**	**4 731 793**
Net decrease in cash and cash equivalents		**(2 677 713)**	**(20 681 705)**
Cash and cash equivalents at the beginning of the year		36 558 917	57 240 622
Cash and cash equivalents at the end of the year	6	**33 881 204**	**36 558 917**

M. Mancinskis
First Deputy Chairman of the Management Board,
Chief Executive Officer

N.G. Tomilina
Chief Accountant

1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for PJSC "Bank Saint Petersburg" (the "Bank") and its subsidiaries, together referred to as the "Group" or PJSC "Bank Saint Petersburg" Group". A list of subsidiaries is disclosed in note 37.

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the corporatisation process of the former Leningrad Regional Office of Zhilsotsbank. In 2014 the Bank was reorganised from the Open Joint-Stock Company "Bank Saint Petersburg" to the Public Joint-Stock Company "Bank Saint Petersburg" following the resolution passed at the extraordinary Shareholders' Meeting.

As at 31 December 2016, management of the Bank controls 52.50% of the ordinary shares of the Bank (2015: 53.15%), including: 23.70% of the ordinary shares of the Bank are controlled by Mr. A.V. Savelyev (2015: 23.70%) and 28.80% of the ordinary shares are controlled by management of the Bank, including 28.74% of the ordinary shares of the Bank are owned by LLC "Vernye Druzya" Management Company" (2015: 29.45% of the ordinary shares are controlled by management of the Bank, including 28.74% of the ordinary shares of the Bank owned by LLC "Vernye Druzya" Management Company"). The NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies own 26.58% of the share capital of LLC "Vernye Druzya" Management Company each (2015: NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED are owned 26.58% of the share capital of LLC "Vernye Druzya" Management Company each).

Ms. O.A. Savelyeva indirectly owns 19.95% of LLC "Vernye Druzya" Management Company and has a perpetual option to purchase a 100% interest in the NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies (2015: Ms. O.A. Savelyeva indirectly owned 19.95% of LLC "Vernye Druzya" Management Company, Mr. A.V. Savelyev had the option to purchase a 100% interest in the NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies). The ultimate owners of the NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies are the representatives of the Bank's management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov (2015: The ultimate owners of the NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies were the representatives of the Bank's management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov).

The remaining ordinary shares of the Bank are owned as follows: 7.40% of the ordinary shares are owned by East Capital Group (2015: 9.0%), 5,49% of the ordinary shares are owned by the EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) (2015: 5.49%).

The remaining 34,61% of the ordinary shares are widely held (2015: 32.36%).

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ dated 23 December 2003 "On Retail Deposit Insurance in the Russian Federation". The state deposit insurance system guarantees payment in the amount of 100% of total deposits placed with a bank, but limited to RR 1 400 000, in the event the bank's license is revoked or the CBRF imposes a moratorium on payments.

As at 31 December 2016, the Bank had four branches within the Russian Federation (three branches located in the North-West region of Russia and one branch in Moscow) and sixty three outlets (2015: four branches within the Russian Federation (three branches located in the North-West region of Russia and one branch in Moscow) and fifty three outlets).

Registered address and place of business. The Bank's registered address and place of business is 64A Malookhtinsky Prospect, 195112, Saint Petersburg, Russian Federation.

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

2 Operating Environment of the Group

Russian Federation. The economy of the Russian Federation displays certain characteristics of developing markets including relatively high inflation and interest rates.

2016 was a year of strong challenges for global economy and financial markets.

According to the results of 2016 the GDP decline in Russia in annual terms was 0.2% against 2.8% in 2015. The economy has successfully adapted to the low oil prices and floating exchange rate of the rouble though the dynamics of production by sector remained extremely uneven.

An inflation slowed down significantly from 12.5% in 2015 to 5.4% in 2016 as a result of low demand and stringent monetary policy of the CBR. During the year a key rate reduced twice to the level of 10%.

Following the economy financial markets recovered. Index RTS reached 1 152 points by the end of the year demonstrating a growth by more than 50% during the year.

During last 9 months USD exchange rate varied within the interval 61-68 RUB/USD. High level of effective interest rates and a stable foreign currency exchange rate allowed non-residents to trade on interest rates with high demand for Russian assets.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets have further increased the level of economic uncertainty. In general, the current economic environment the Group operates in is characterised by significant growth of risks of different nature and general uncertainty, bounding the strategic horizon for market participants and aggregated risk appetite.

The consolidated financial statements reflect management’s assessment of the possible impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (the “IFRS”) under the historical cost convention, as modified by initial recognition of financial instruments at fair value and revaluation of premises, trading securities, investment securities available-for-sale and derivative financial instruments. The principle accounting policies applied in the preparation of these consolidated financial statements are set out below, except changes in accounting policies related to the amendments to IFRS described below.

Amendments to IAS 1. These amendments clarify the materiality principle. In particular, it has been made explicit that companies should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if this provides helpful information to users; and can aggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if the line items are immaterial. Following these amendments presentation of consolidated financial statements was changed as followers:

- Derivative financial assets and liabilities were stated as separate lines in the consolidated statement of financial position from other assets and other liabilities respectively;
- Prepaid income tax and deferred tax asset were included in other assets;
- Deferred tax liability was included in other liabilities;
- Loans and advances to customers were disaggregated on loans and advances to legal entities and loans and advances to individuals.

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

Subsidiaries are accounted for in consolidated financial statements using the acquisition method. Acquired identifiable assets, liabilities and contingencies as a result of business combination are stated at fair value as at the acquisition date irrespective of non-controlling interest.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the amount is negative (“negative goodwill”) it is recognised in profit or loss after the management has assessed whether all acquired assets and all assumed liabilities and contingencies are identified and analysed correctness of their estimate.

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

Intercompany transactions, balances and unrealised gains arising from intercompany transactions are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

3 Basis of Preparation and Significant Accounting Policies (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies paid to regulatory agencies and stock exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the price that would be received for sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date. Fair value of an instrument is best evidenced by the quoted price for that instrument in an active market. Fair value is the current bid price for financial assets and current asking price for financial liabilities that are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or the current value of an investee are used for determination of the fair value of financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The discounted value calculation includes all fees and charges paid and received between the parties to the contract that form an integral part of the effective interest rate (refer to Income and Expense Recognition Policy).

Initial recognition of financial instruments. Trading securities and derivative financial instruments are initially recorded at fair value. All other financial instruments are initially recorded at fair value including transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss at initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Basis of Preparation and Significant Accounting Policies (continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date when the Group commits to buy or sell a financial asset. All other acquisition transactions are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank’s and its subsidiaries’ functional currency and the presentation currency of the Group’s consolidated financial statements is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities translated at the CBRF official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

As at 31 December 2016, the official rates of exchange used for translating foreign currency balances were USD 1 = RR 60.6559 and EURO 1 = RR 63.8111 (2015: USD 1 = RR 72.8827 and EURO 1 = RR 79.6972).

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognised in due from banks. Amounts that relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Trading securities. Trading securities are included in financial assets at fair value through profit or loss that are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within the period from one to six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss as interest income. Dividends are included in other operating income when the Group’s right to receive the dividend payment is established and provided the dividend is likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences significant financial difficulty as evidenced by financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- implementation of the borrower's investment plans is delayed; or
- the Group expects difficulties in servicing the borrower's debt due to volatility of the borrower's cash flows caused by its cyclic activity or irregularity of proceeds.

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

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

Impairment losses are recognised through an allowance account to decrease the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been currently incurred) discounted at the initial effective interest rate of the asset. The calculation of the discounted value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Basis of Preparation and Significant Accounting Policies (continued)

Uncollectible assets are written off against the related impairment allowance recorded in the consolidated statement of financial position after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

Investment securities available-for-sale. This classification includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Certain types of investment securities available-for-sale are carried at cost when the Group cannot measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, when the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss for the year.

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

Advances receivable. Advances receivable are recognised if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”), which effectively provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. In such cases they are classified as “Securities pledged under sale and repurchase agreements and loaned”. The corresponding liability is presented within amounts due to banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (“reverse repo agreements”), which provide the Group with a creditor’s return, are recorded as reverse sale and repurchase agreements. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the reverse repo agreements using the effective interest method.

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

If the assets purchased under a sale and repurchase agreement are sold to third parties, the obligation to return the securities is recorded as a financial liability at fair value through profit or loss.

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

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

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

Promissory notes purchased. Promissory notes purchased are included in due from banks or loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

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

Group’s premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Any increase in the carrying value as a result of revaluation is recognised in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognised in other comprehensive income and reduces the revaluation reserve previously recognised in equity. All other decreases in value are recognised in profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

Costs of minor repairs and maintenance are recognised when incurred. Costs of replacing major parts or components of premises and equipment are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Premises: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

3 Basis of Preparation and Significant Accounting Policies (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset to the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets. All intangible assets of the Group have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

Investment property. Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is stated at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group is likely to receive the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category “Premises and Equipment”.

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

Long-term assets held-for-sale. Long-term assets and disposal groups (which may include both long-term and short-term assets) are presented in the consolidated statement of financial position as long-term assets held-for-sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. Assets are reclassified to long-term assets held-for-sale when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) management of the Group approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Long-term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included in the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal groups that will be transferred in the disposal transaction are presented separately in the consolidated statement of financial position.

Due to banks. Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. The non-derivative financial liability is carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

Other borrowed funds*.* Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not apply hedge accounting.

Income taxes. Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss for the year except if it is recognised as other comprehensive income or directly in equity because it relates to transactions that are also recognised in the same or a different period as other comprehensive income or directly in equity.

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

Deferred income tax is calculated on the basis of balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. Uncertain tax positions of the Group are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Provisions for liabilities and future expenses. Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the consolidated financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Payables. Payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, other than the commitment to originate loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately. Such commission income related to loan origination commitment is recognised as future period profit and is included in the loan’s carrying amount upon initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date.

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

Preference shares. Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends in relation to own equity instruments are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are approved for issue are disclosed in the *Events after the reporting period* note. The statutory accounting reports are the basis for payment of dividends and other profit distribution. Russian legislation identifies the basis of profit distribution as the current year net profit.

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

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

When loans issued or other debt instruments become doubtful of timely collection, they are written off to recoverable value with subsequent recognition of interest income based on the effective interest rate that was used to discount future cash flows with the purpose of determination of recoverable value.

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

Fiduciary assets. Assets held by the Group in its own name, but on the account and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is presented in note 34. Commissions received from fiduciary activities are shown in fee and commission income.

3 Basis of Preparation and Significant Accounting Policies (continued)

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

The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and any of its counterparties.

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued as far as the associated services are rendered by the Group’s employees.

Segment reporting**.** Segment reporting is prepared based on the internal management reports regularly reviewed by the Group’s chief operating decision maker. Segments with an income, financial results or total assets equal to at least ten percent of those from all the segments are reported separately.

The Group’s operations are neither seasonal nor cyclic by nature.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the period, the Group makes professional judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that a one month delay in repayment of principal and interest on 5% of the total loans and advances to customers occurred, the allowance would be approximately RR 156 328 thousand higher (2015: RR 164 770 thousand higher).

Revaluation of investment securities available-for-sale. Investment securities available-for-sale are recorded based on fair value.

In the event it does not appear possible to assess fair value of certain types of equity securities falling into such category with an adequate degree of assurance (lack of active market quotes, as well as observable data such as price for similar instruments on the active market), such type of security is recorded based on historical cost.

Revaluation of premises. The fair values of the Group's premises are determined by using valuation methods and are based on their market value. Market values of premises are estimated by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. To the extent that the assessed fair value of premises differs by 10%, its carrying value would change by RR 1 215 342 thousand (before deferred tax) as at 31 December 2016 (2015: by RR 1 277 896 thousand).

5 Standards and interpretations not yet adopted

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

IFRS 9 "Financial instruments", published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement", and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

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

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

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

5 Standards and interpretations not yet adopted (continued)

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

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

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

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

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

Currently the Group is in the process of development of IFRS 9 implementation plan. The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements: disclosure initiative (Amendments to IAS 7 "Statement of Cash Flows"), recognition of deferred tax assets for unrealised losses (Amendments to IAS 12 "Income Taxes"), classification and measurement of share-based payment transactions (Amendments to IFRS 2 "Share-Based Payment"), IFRS 16 "Leases", IFRS 15 "Revenue from Contracts with Customers".

6 Cash and Cash Equivalents

In thousands of Russian Roubles	**2016**	**2015**
Cash on hand	7 728 438	8 716 007
Cash balances with the CBRF (other than mandatory reserve deposits)	12 655 043	12 712 580
Correspondent accounts and overnight placements with banks of		
- the Russian Federation	5 855 219	3 665 210
- other countries	1 477 061	2 381 520
Settlement accounts with trading systems	6 165 443	9 083 600
Total cash and cash equivalents	**33 881 204**	**36 558 917**

Correspondent accounts and overnight placements with banks of the Russian Federation and settlement accounts with trading systems are mainly represented by balances with Russian stock exchanges and clearing houses.

Currency and interest rate analyses of cash and cash equivalents are disclosed in note 32.

7 Trading Securities

In thousands of Russian Roubles	**2016**	**2015**
Corporate bonds	12 957 090	10 471 754
Corporate Eurobonds	3 341 132	1 982 614
Municipal bonds	496 343	43 593
Federal loan bonds	41 346	568 163
Total debt securities	**16 835 911**	**13 066 124**
Corporate shares	290 136	127 348
Total trading securities	**17 126 047**	**13 193 472**

Corporate bonds are interest bearing securities denominated in Russian Rouble issued by Russian companies and traded in the Russian market. These bonds have maturity dates from 9 February 2017 to 23 September 2032 (2015: from 19 January 2016 to 23 September 2032); coupon rates from 4.9% to 15.0% p.a. (2015: from 8.3% to 18.5% p.a.); and yields to maturity from 4.9% to 12.2% p.a. as at 31 December 2016 (2015: from 8.2% to 15.6% p.a.) depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-resident companies for the benefit of credit organisations resident in the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 21 February 2017 to 3 November 2020 (2015: from 17 February 2016 to 17 April 2020); coupon rates from 2.2% to 11.0% p.a. (2015: from 2.2% to 7.8% p.a.); and yields to maturity from 0.13% to 8.57% p.a. as at 31 December 2016 (2015: from 2.0% to 11.5% p.a.) depending on the type of Eurobond issue.

Municipal bonds are securities denominated in Russian Rouble issued by the municipal administrations of Moscow, Saint-Petersburg, Novosibirsk, Moscow Region, Belgorod Region, Volgograd Region, Voronezh Region, Samara Region, Smolensk Region, Tomsk region, Tula Region, Yaroslavl Region, Krasnoyarsk Territory, Stavropol Territory and Komi Republic (2015: Moscow, Saint-Petersburg, Belgorod Region, Volgograd Region, Voronezh Region, Smolensk Region, Tomsk Region, Tula Region, Yaroslavl Region, Krasnoyarsk Territory, Stavropol Territory and Komi Republic). These bonds have maturity dates from 18 May 2017 to 21 November 2023 (2015: from 18 May 2017 to 23 June 2021); coupon rates from 6.4% to 12.7% p.a. (2015: from 6.9% to 12.0% p.a.); and yields to maturity from 8.0% to 11.0% p.a. as at 31 December 2016 (2015: from 8.8% to 13.5% p.a.), depending on the type of bond issue.

Federal loan bonds are government securities denominated in Russian Rouble issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 19 April 2017 to 27 February 2019 (2015: from 20 January 2016 to 19 January 2028); coupon rates from 6.2% to 7.5% p.a. (2015: from 6.0% to 12.0% p.a.); and yields to maturity from 8.2% to 8.7% p.a. as at 31 December 2016 (2015: from 8.8.% to 10.9% p.a.) depending on the type of bond issue.

7 Trading securities (continued)

Corporate shares are shares of Russian companies (2015: shares of Russian companies).

Debt trading securities of the Group are divided by credit rating of the issuer assigned by rating agencies Moody's, S&P and Fitch into the following groups:

Group A - debt securities with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B - debt securities with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C - debt securities with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D - debt securities with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies or without credit rating.

Analysis by credit quality of debt trading securities outstanding at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Federal loan bonds**	**Total**
Not overdue or impaired					
Group A	806 950	154 869	-	-	961 819
Group B	10 529 569	2 816 708	418 727	41 346	13 806 350
Group C	513 183	-	43 186	-	556 369
Group D	1 107 388	369 555	34 430	-	1 511 373
Total debt trading securities	**12 957 090**	**3 341 132**	**496 343**	**41 346**	**16 835 911**

7 Trading securities (continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2015 is as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Federal loan bonds	Municipal bonds	Total
Not overdue or impaired					
Group A	714 356	-	-	-	714 356
Group B	9 220 715	1 982 614	568 163	13	11 771 505
Group C	291 539	-	-	43 579	335 118
Group D	245 144	-	-	1	245 145
Total debt trading securities	**10 471 754**	**1 982 614**	**568 163**	**43 593**	**13 066 124**

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

Currency and maturity analyses of trading securities are disclosed in note 32.

In December 2014 the Group reclassified certain financial assets for which there was no active market from trading securities to due from banks, loans and advances to customers, and financial assets for which there was an active market from trading securities to investment securities available-for-sale. See notes 10, 11, 12.

Management believes that significant deterioration of the situation in the domestic currency market in the fourth quarter of 2014, which led to a sharp increase of the key rate of the CBRF, is a rare, unpredictable and extraordinary event, since it does not correspond to the general trend and volatility observed in the financial markets during previous periods.

The Group determined that this anti-crisis change of the key rate of the CBRF, which occurred on 15 December 2014, is an example of a “rare event”, which provides the basis for reclassification from the category of trading securities.

The carrying and fair values of all financial assets reclassified from trading securities are as follows:

	2016		2015	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans and advances to customers	963 529	1 026 817	14 065 674	14 178 914
Due from banks	3 084 946	3 259 938	7 171 750	7 504 704
Investment securities available-for-sale	4 187 584	4 187 584	12 757 884	12 757 884
Total	**8 236 059**	**8 474 339**	**33 995 308**	**34 441 502**

7 Trading securities (continued)

The amounts of income and expenses from financial assets, reclassified to due from banks and loans and advances to customers, recognised in profit or loss before reclassification date, after reclassification date, and income and expenses (after reclassification date), which would be recognised in profit or loss if these financial assets were not reclassified are as follows:

	Income (expenses) recognised in 2014 before reclassification date	**Income (expenses) recognised after reclassification date**		**Income (expenses) which would be recognised after reclassification date if the assets were not reclassified**	
In thousands of Russian Roubles		**2015**	**2016**	**2015**	**2016**
Interest income	1 060 173	2 498 816	793 476	2 498 816	793 476
Gains less losses from securities	(805 248)	6 073	(2 831)	1 425 340	222 276
Provision for loan impairment	-	(47 141)	59 755	-	-
Total effect on profit	**254 925**	**2 457 748**	**850 500**	**3 924 156**	**1 015 752**

The amount of revaluation loss from financial assets, reclassified to investment securities available-for-sale, recognised in other comprehensive income after the date of reclassification amounts to RR 82 774 thousand before deduction of deferred income tax for 2016 (2015 : revaluation gain in amount of RR 48 012 thousand before deduction of deferred income tax).

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned

In thousands of Russian Roubles	2016	2015
Trading securities pledged under sale and repurchase agreements and loaned		
Corporate Eurobonds	18 580 867	4 040 590
Corporate bonds	4 153 814	3 397 134
Federal loan bonds	550	43 931
Total debt trading securities pledged under sale and repurchase agreements and loaned	**22 735 231**	**7 481 655**
Corporate shares	194 612	15 020
Total trading securities pledged under sale and repurchase agreements and loaned	**22 929 843**	**7 496 675**
Investment securities available-for-sale pledged under sale and repurchase agreements and loaned		
Corporate Eurobonds	32 026 175	46 693 615
Corporate bonds	6 493 109	13 305 674
Federal loan bonds	351 119	2 679 844
Municipal bonds	-	99 089
Eurobonds of the Russian Federation	-	39 154
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**38 870 403**	**62 817 376**
Total securities pledged under sale and repurchase agreements and loaned	**61 800 246**	**70 314 051**

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-resident companies for the benefit of credit organisations resident in the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 13 February 2017 to 20 May 2021 (2015: from 31 January 2016 to 22 June 2020); coupon rates from 2.2% to 9.3% p.a. (2015: 3.1% to 9.3% p.a.); and yields to maturity from 0.01% to 9.83% as at 31 December 2016 (2015: from 1.5% to 13.1% p.a.). The term of the corresponding repurchase agreements was from 10 to 732 calendar days (2015: from 12 to 364 calendar days), with effective rates from 1.2% to 10.5% p.a. (2015: from 1.3% to 11.8% p.a.).

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Corporate bonds are interest bearing securities denominated in Russian Rouble issued by Russian companies and traded in the Russian market. These bonds have maturity dates from 9 February 2017 to 23 September 2032 (2015: from 19 January 2016 to 23 September 2032); coupon rates from 4.9% to 12.0% p.a. (2015: from 7.9% to 18,5% p.a.); and yields to maturity from 4.9% to 10.0% p.a. as at 31 December 2016 (2015: from 8.3% to 13.9% p.a.) depending on the type of bond issue. The term of the corresponding repurchase agreements was from 10 to 29 calendar days (2015: 14 calendar days), with effective rates from 2.4% to 10.5% p.a. (2015: from 11.3% to 11.8% p.a.)

Federal loan bonds are government securities denominated in Russian Rouble issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 14 June 2017 to 17 September 2031 (2015: from 20 January 2016 to 20 July 2022); coupon rates from 6.2% to 8.5% p.a. (2015: from 6.0% to 7.6% p.a.); and yields to maturity from 8.3% to 8.7% p.a. as at 31 December 2016 (2015: from 8.8% to 10.2% p.a.), depending on the type of bonds issue. The term of the corresponding repurchase agreements was 15 calendar days (2015: from 12 to 14 calendar days), with effective rate of 9.7% p.a. (2015: from 10.5% to 11.8% p.a.).

As at 31 December 2015, municipal bonds are securities denominated in Russian Rouble issued by the municipal administration of Saint-Petersburg. These bonds have maturity date on 1 June 2017; coupon rate of 7.9% p.a.; and yield to maturity of 10.1% p.a. as at 31 December 2015. The term of the corresponding repurchase agreements was 14 calendar days, with effective rate of 11.3% p.a.

As at 31 December 2015, Eurobonds of the Russian Federation are interest bearing securities denominated in Russian Rouble issued by the Ministry of Finance of the Russian Federation traded in the international market. These Eurobonds have maturity date on 10 March 2018; coupon rate of 7.9% p.a.; and yield to maturity of 10.7% p.a. as at 31 December 2015. The term of the corresponding repurchase agreements was 14 calendar days, with an effective rate of 11.8% p.a.

Corporate shares are shares of Russian companies. As at 31 December 2016, the term of the corresponding repurchase agreements was 10 calendar days (2015: 13 calendar days), with an effective rate of 10.3% p.a. (2015: from 11.3% to 12.0% p.a.).

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2016 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate Eurobonds**	**Corporate bonds**	**Federal loan bonds**	**Total**
Debt trading securities pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	627 873	-	-	627 873
Group B	17 952 994	4 153 814	550	22 107 358
Total debt trading securities pledged under sale and repurchase agreements and loaned	**18 580 867**	**4 153 814**	**550**	**22 735 231**
Debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	831 811	-	-	831 811
Group B	31 194 364	6 493 109	351 119	38 038 592
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**32 026 175**	**6 493 109**	**351 119**	**38 870 403**
Total debt securities pledged under sale and repurchase agreements and loaned	**50 607 042**	**10 646 923**	**351 669**	**61 605 634**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2015 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate Eurobonds**	**Corporate bonds**	**Federal loan bonds**	**Municipal bonds**	**Eurobonds of the Russian Federation**	**Total**
Debt trading securities pledged under sale and repurchase agreements and loaned						
Not overdue or impaired						
Group A	318 069	-	-	-	-	318 069
Group B	3 722 521	3 397 132	43 931	-	-	7 163 584
Group C	-	2	-	-	-	2
Total debt trading securities pledged under sale and repurchase agreements and loaned	**4 040 590**	**3 397 134**	**43 931**	**-**	**-**	**7 481 655**
Debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned						
Not overdue or impaired						
Group A	302 012	1 402 923	-	-	-	1 704 935
Group B	46 391 603	10 224 908	2 679 844	99 089	39 154	59 434 598
Group C	-	854 759	-	-	-	854 759
Group D	-	823 084	-	-	-	823 084
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**46 693 615**	**13 305 674**	**2 679 844**	**99 089**	**39 154**	**62 817 376**
Total debt securities pledged under sale and repurchase agreements and loaned	**50 734 205**	**16 702 808**	**2 723 775**	**99 089**	**39 154**	**70 299 031**

For definition of groups refer to note 7.

8 Securities pledged under sale and repurchase agreements and loaned (continued)

Securities transferred or sold under sale and repurchase agreements are transferred to a third party as collateral for borrowed funds. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received in financial liabilities at fair value.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as the requirements determined by exchanges where the Group acts as an intermediary.

Currency and maturity analyses of securities pledged under sale and repurchase agreements and loaned are disclosed in note 32.

9 Reverse Sale and Repurchase Agreements

In thousands of Russian Roubles	2016	2015
Reverse sale and repurchase agreements with banks	2 566 373	2 479 601
Reverse sale and repurchase agreements with customers	55 933 079	12 740 989
Total reverse sale and repurchase agreements	**58 499 452**	**15 220 590**

As at 31 December 2016, reverse sale and repurchase agreements represent agreements with customers and banks that are secured by federal loan bonds, corporate Eurobonds, corporate bonds and corporate shares (2015: federal loan bonds, Eurobonds of the Russian Federation, municipal bonds, corporate Eurobonds, corporate bonds and corporate shares).

As at 31 December 2016, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RR 65 879 880 thousand (2015: RR 17 717 070 thousand), out of which securities with a fair value of RR 29 444 135 thousand are pledged under sale and repurchase agreements (2015: RR 5 094 550 thousand), securities with a fair value of RR 4 223 164 thousand are sold by the Group (2015: RR 870 262 thousand). In all cases the value of collateral under separate transactions equals or exceeds the amount due from the transaction.

Currency and maturity analyses of reverse sale and repurchase agreements are disclosed in note 32. Interest rate analysis of reverse sale and repurchase agreements is disclosed in note 32.

10 Due from Banks

In thousands of Russian Roubles	2016	2015
Term placements with banks	33 396 755	35 168 443
Allowance for impairment	(24 997)	(45 859)
Total due from banks	**33 371 758**	**35 122 584**

Movements in the allowance for impairment of due from banks are as follows:

In thousands of Russian Roubles	2016	2015
Allowance for impairment as at 1 January	**45 859**	**10 174**
(Recovery of) provision for impairment during the year	(20 862)	35 685
Allowance for impairment as at 31 December	**24 997**	**45 859**

10 Due from banks (continued)

As at 31 December 2016, the carrying value of securities reclassified in 2014 from trading securities to due from banks amounts to RR 3 084 946 thousand before the allowance for impairment (2015: RR 7 171 750 thousand before the allowance for impairment).

Reclassified securities with the carrying value of RR 2 908 913 thousand are securities pledged under sale and repurchase agreements in due to banks (2015: RR 6 227 386 thousand). As at 31 December 2016, the fair value of these securities amounts to RR 3 072 954 thousand (2015: RR 6 555 357 thousand). Refer to note 17.

The Bank uses a system of limits for granting loans to banks, as shown in note 32. The current interbank loan portfolio is used for short-term placement of temporarily available cash.

Term placements with banks are divided by credit quality depending on credit rating of a credit organisation assigned by Moody's, S&P and Fitch rating agencies into the following groups:

Group A – credit organisations with credit rating at least BBB-, according to S&P rating agency or equivalent rating of other agencies,

Group B – credit organisations with credit rating between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – credit organisations with credit rating between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – credit organisations with credit rating below B-, according to S&P rating agency or equivalent rating of other agencies, or without credit rating.

Analysis by credit quality of term placements with banks as at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Securities reclassified to due from banks**	**Total**
Group A	993 559	2 487 346	3 480 905
Group B	28 034 338	597 600	28 631 938
Group C	644 039	-	644 039
Group D	639 873	-	639 873
Total term placements with banks	**30 311 809**	**3 084 946**	**33 396 755**

Analysis by credit quality of term placements with banks as at 31 December 2015 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Securities reclassified to due from banks**	**Total**
Group A	23 322	-	23 322
Group B	27 973 371	7 171 750	35 145 121
Total term placements with banks	**27 996 693**	**7 171 750**	**35 168 443**

Loans to banks are not secured. No placements with banks are impaired or past due.

Currency and maturity analyses of due from banks are disclosed in note 32. Interest rate analysis of due from banks is disclosed in note 32.

11 Loans and Advances to Customers

In thousands of Russian Roubles	**2016**	**2015**
Loans and advances to legal entities		
- loans to finance working capital	193 343 047	210 408 652
- investment loans	92 693 285	90 573 576
- loans to entities financed by the government	8 150 996	15 782 648
Loans and advances to individuals		
- mortgage loans	42 447 553	35 379 300
- car loans	1 704 418	2 633 847
- consumer loans to VIP clients	5 704 343	4 761 647
- other consumer loans	10 270 229	10 727 029
Allowance for impairment	(39 602 806)	(34 964 599)
Total loans and advances to customers	**314 711 065**	**335 302 100**

As at 31 December 2016, the carrying value of securities reclassified from trading securities to loans and advances to customers in 2014 amounts to RR 963 529 thousand before provision for impairment (2015: RR 14 065 674 thousand). Reclassified securities with the carrying value of RR 963 529 thousand are securities pledged under sale and repurchase agreements in due to banks. As at 31 December 2016, the fair value of these securities amounts to RR 1 026 817 thousand (2015: reclassified securities with the carrying value of RR 10 547 908 thousand are securities pledged under sale and repurchase agreements in due to banks, the fair value of these securities amounts to RR 10 602 720 thousand).

Movements in the allowance for loan impairment during 2016 are as follows:

	Loans to legal entities			**Loans to individuals**				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	**Total**
Allowance for impairment at 1 January	**22 308 745**	**10 700 149**	**199 029**	**600 051**	**50 435**	**344 276**	**761 914**	**34 964 599**
Provision for (recovery of) impairment during the year	8 423 187	3 435 185	280 151	(147 739)	(3 581)	267 023	256 742	**12 510 968**
Loans sold during the year	(530 895)	(5 255)	-	-	-	-	(3 632)	**(539 782)**
Amounts written off as non-recoverable during the year	(3 952 788)	(3 272 400)	-	(2 133)	(2 862)	-	(102 796)	**(7 332 979)**
Allowance for impairment at 31 December	**26 248 249**	**10 857 679**	**479 180**	**450 179**	**43 992**	**611 299**	**912 228**	**39 602 806**

11 Loans and advances to customers (continued)

Movements in the allowance for loan impairment during 2015 are as follows:

	Loans to legal entities			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	**Total**
Allowance for impairment at 1 January	**21 000 863**	**6 089 421**	**129 787**	**175 562**	**57 782**	**569 715**	**381 988**	**28 405 118**
Provision for (recovery of) impairment during the year	6 712 997	4 613 362	69 242	439 124	25 008	(24 853)	422 578	**12 257 458**
Loans sold during the year	(68 540)	-	-	(632)	-	-	-	**(69 172)**
Amounts written off as non-recoverable during the year	(5 336 575)	(2 634)	-	(14 003)	(32 355)	(200 586)	(42 652)	**(5 628 805)**
Allowance for impairment at 31 December	**22 308 745**	**10 700 149**	**199 029**	**600 051**	**50 435**	**344 276**	**761 914**	**34 964 599**

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

	2016		2015	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	60 126 543	17.0	53 501 823	14.4
Production and food industry	43 703 763	12.3	39 865 293	10.8
Construction	43 572 746	12.3	49 429 706	13.3
Heavy machinery and ship building	36 334 463	10.3	27 680 381	7.5
Real estate	34 747 634	9.8	32 814 512	8.9
Trade	29 059 438	8.2	39 805 362	10.8
Leasing and financial services	28 042 497	7.9	38 407 258	10.4
Oil and gas extraction and transportation	18 228 508	5.1	26 547 246	7.2
Transport	12 982 384	3.7	15 594 885	4.2
Entities financed by the government	8 150 996	2.3	15 782 648	4.3
Sports and health and entertainment organisations	7 844 731	2.2	7 620 521	2.1
Telecommunications	7 556 166	2.1	4 618 923	1.2
Chemical industry	6 813 799	1.9	3 932 379	1.1
Energy	3 607 036	1.0	1 014 213	0.3
Other	13 543 167	3.9	13 651 549	3.5
Total loans and advances to customers (before allowance for impairment)	**354 313 871**	**100.0**	**370 266 699**	**100.0**

As at 31 December 2016, the 20 largest groups of borrowers of the Group have aggregate loan amounts of RR 99 999 403 thousand (2015: RR 99 484 092 thousand), or 28.2% (2015: 26.9%) of the loan portfolio before impairment.

11 Loans and advances to customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2016 are as follows:

In thousands of Russian Roubles	Gross loans and advances to customers	Allowance for impairment	Net loans and advances to customers	Allowance for impairment to loans and advances to customers, %
Loans and advances to legal entities:				
Loans collectively assessed for impairment, not individually impaired				
Standard loans not past due	240 269 192	(7 330 010)	232 939 182	3,05
Watch list loans not past due	3 644 947	(288 780)	3 356 167	7,92
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	32 510 074	(18 927 653)	13 582 421	58,22
Overdue:				
- less than 5 calendar days	907 511	(236 400)	671 111	26,05
- 6 to 30 calendar days	314 740	(225 606)	89 134	71,68
- 31 to 60 calendar days	992 028	(292 877)	699 151	29,52
- 61 to 90 calendar days	499 165	(54 406)	444 759	10,90
- 91 to 180 calendar days	2 214 907	(1 375 608)	839 299	62,11
- 181 to 365 calendar days	1 911 246	(1 242 157)	669 089	64,99
- more than 365 calendar days	10 923 518	(7 611 611)	3 311 907	69,68
Total loans and advances to legal entities	**294 187 328**	**(37 585 108)**	**256 602 220**	**12,78**
Loans and advances to individuals:				
- mortgage loans	42 447 553	(450 179)	41 997 374	1,06
- car loans	1 704 418	(43 992)	1 660 426	2,58
- consumer loans to VIP clients	5 704 343	(611 299)	5 093 044	10,72
- other consumer loans	10 270 229	(912 228)	9 358 001	8,88
Total loans and advances to individuals	**60 126 543**	**(2 017 698)**	**58 108 845**	**3,36**
Total loans and advances to customers	**354 313 871**	**(39 602 806)**	**314 711 065**	**11,18**

11 Loans and advances to customers (continued)

In thousands of Russian Roubles	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	Total loans and advances to individuals
Loans and advances to individuals:					
Standard loans not past due	41 374 258	1 579 265	4 305 661	9 253 047	56 512 231
Overdue:					
- less than 5 calendar days	33 720	2 357	685 370	7 495	728 942
- 6 to 30 calendar days	77 180	8 459	-	27 623	113 262
- 31 to 60 calendar days	143 265	5 195	-	30 921	179 381
- 61 to 90 calendar days	44 411	3 684	-	23 162	71 257
- 91 to 180 calendar days	154 707	7 666	73 000	92 991	328 364
- 181 to 365 calendar days	152 328	11 246	145 678	169 288	478 540
- more than 365 calendar days	467 684	86 546	494 634	665 702	1 714 566
Total loans and advances to individuals (before allowance for impairment)	**42 447 553**	**1 704 418**	**5 704 343**	**10 270 229**	**60 126 543**
Allowance for impairment	**(450 179)**	**(43 992)**	**(611 299)**	**(912 228)**	**(2 017 698)**
Total loans and advances to individuals (after allowance for impairment)	**41 997 374**	**1 660 426**	**5 093 044**	**9 358 001**	**58 108 845**

11 Loans and advances to customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2015 are as follows:

In thousands of Russian Roubles	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment to loans and advances to customers, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, not individually impaired				
Standard loans not past due	256 813 923	(7 718 377)	249 095 546	3,01
Watch list loans not past due	16 699 447	(1 901 169)	14 798 278	11,38
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	24 391 046	(11 916 102)	12 474 944	48,85
Overdue:				
- less than 5 calendar days	362 423	(19 941)	342 482	5,50
- 6 to 30 calendar days	2 120 205	(804 052)	1 316 153	37,92
- 31 to 60 calendar days	1 528 192	(774 302)	753 890	50,67
- 61 to 90 calendar days	941 783	(197 513)	744 270	20,97
- 91 to 180 calendar days	1 294 393	(642 411)	651 982	49,63
- 181 to 365 calendar days	5 310 856	(3 987 372)	1 323 484	75,08
- more than 365 calendar days	7 302 608	(5 246 684)	2 055 924	71,85
Total loans and advances to legal entities	**316 764 876**	**(33 207 923)**	**283 556 953**	**10,48**
Loans and advances to individuals:				
- mortgage loans	35 379 300	(600 051)	34 779 249	1,70
- car loans	2 633 847	(50 435)	2 583 412	1,91
- consumer loans to VIP clients	4 761 647	(344 276)	4 417 371	7,23
- other consumer loans	10 727 029	(761 914)	9 965 115	7,10
Total loans and advances to individuals	**53 501 823**	**(1 756 676)**	**51 745 147**	**3,28**
Total loans and advances to customers	**370 266 699**	**(34 964 599)**	**335 302 100**	**9,44**

11 Loans and advances to customers (continued)

In thousands of Russian Roubles	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	Total loans and advances to individuals
Loans and advances to individuals:					
Standard loans not past due	34 157 245	2 481 977	4 237 230	9 801 400	50 677 852
Overdue:					
- less than 5 calendar days	49 664	6 788	-	12 899	69 351
- 6 to 30 calendar days	120 520	6 605	-	54 991	182 116
- 31 to 60 calendar days	80 764	11 348	-	55 762	147 874
- 61 to 90 calendar days	47 743	6 398	200 467	42 561	297 169
- 91 to 180 calendar days	193 419	14 117	-	188 137	395 673
- 181 to 365 calendar days	280 303	35 158	-	230 398	545 859
- more than 365 calendar days	449 642	71 456	323 950	340 881	1 185 929
Total loans and advances to individuals (before allowance for impairment)	**35 379 300**	**2 633 847**	**4 761 647**	**10 727 029**	**53 501 823**
Allowance for impairment	**(600 051)**	**(50 435)**	**(344 276)**	**(761 914)**	**(1 756 676)**
Total loans and advances to individuals (after allowance for impairment)	**34 779 249**	**2 583 412**	**4 417 371**	**9 965 115**	**51 745 147**

The Group estimates loan impairment for individually assessed corporate loans, for which specific indications of impairment have been identified, based on an analysis of the expected future cash flows based primarily on collateral. The principal collateral taken into account in the estimation of future cash flows comprises real estate. Valuations for real estate are discounted by 30-50 percent to reflect current market conditions.

For portfolios of standard not past due loans in determining the impairment allowance, the Group estimated impairment allowance based on previous experience of incurred losses by industry for loans portfolios adjusted to factor the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management's estimate of the losses in the portfolio as at 31 December 2016 and 31 December 2015.

The Group estimates the impairment allowance of loans to individuals based on an analysis of future cash flows for impaired loans and based on its past historical loss experience for loans for which no indications of impairment have been identified. In determining the impairment allowance for loans for which no indications of impairment have been identified, management adjusts historic loss rates to factor, where nessesary, in the current changes of the loan portfolio. The principal collateral taken into account in the estimation of future cash flows comprises mainly real estate and cars. Valuations for real estate and cars are discounted by 10-20 percent to reflect current market conditions.

Loans and advances to customers are classified as "Standard loans not past due" when they do not have any overdue payments as at the reporting date and Group's management does not have any information indicating that the borrower is not able to repay the loan to the Group in full and in time.

Loans and advances to customers are classified as "Watch list loans not past due" when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including the external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

11 Loans and Advances to Customers (continued)

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

The following table provides information on collateral securing corporate loans, net of impairment, by types of collateral presented on the basis of excluding overcollateralization at 31 December 2016 and 31 December 2015:

In thousands of Russian Roubles	**2016**	**2015**
Cash	2 295 121	982 253
Real estate	134 101 577	144 984 681
Motor vehicles	750 000	542 734
PPE	17 702 486	19 249 664
Guarantees and sureties	33 726 788	56 572 990
Other collateral	8 872 739	13 590 673
No collateral	58 153 509	47 633 958
Total	**256 602 220**	**283 556 953**

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

The recoverability of loans to legal entities which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

The Group has standard loans not past due, for which fair value of collateral was assessed at the loan inception date and not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date.

There are highly reliable borrowers included in loans to finance working capital, for which the Group considers it appropriate to issue loans without collateral.

Mortgage loans are secured by the underlying real estate. Mortgage loans amount does not exceed 85% of real estate cost. Car loans are secured by the underlying cars.

Management estimates that the impairment allowance on loans to legal entities would have been RR 15 609 949 thousand higher without taking into consideration collateral value (2015: RR 22 895 735 thousand).

Interest income received on overdue and impaired loans during 2016 amounts to RR 888 109 thousand (2015: RR 829 859 thousand).

As at 31 December 2016, the Group has mortgages in the amount of RR 3 760 505 thousand (2015: none) transferred to the mortgage agent “MA BSPB” LLC, a structured company founded for the financing purposes. As at 31 December 2016, such mortgages are pledged as collateral for the mortgage secured bonds with the carrying value of RR 3 718 451 thousand issued by the mortgage agent of which bonds with the carrying value of RR 2 714 151 thousand were repurchased by the Bank (2015: none). Refer to note 19.

Currency and maturity analyses of loans and advances to customers are disclosed in note 32. Analysis of interest rates of loans and advances to customers is disclosed in note 32. Fair value analysis of loans and advances to customers is disclosed in note 35. Information on related party transactions is disclosed in note 36.

12 Investment Securities Available-For-Sale

In thousands of Russian Roubles	2016	2015
Corporate bonds	19 673 844	14 276 236
Corporate Eurobonds	3 269 715	4 087 054
Municipal bonds	2 141 496	610 811
Federal loan bonds	984 945	6 415 985
Eurobonds of the Russian Federation	-	107 673
Total debt securities	**26 070 000**	**25 497 759**
Equity securities	407 508	2 351 433
Total investment securities available-for-sale	**26 477 508**	**27 849 192**

As at 31 December 2016, the fair value of securities reclassified in 2014 from trading securities to investment securities available-for-sale equals to RR 4 187 584 thousand (2015: RR 12 757 884 thousand). Reclassified securities with the fair value of RR 1 671 395 thousand are securities pledged under sale and repurchase agreements (2015: RR 7 350 363 thousand).

Corporate bonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by Russian companies and traded in the Russian market. These bonds have maturity dates from 9 February 2017 to 28 June 2043 (2015: from 30 January 2016 to 17 September 2032); coupon rates from 4.9% to 15.0% p.a. (2015: from 7.5% to 18.5% p.a.); and yields to maturity from 4.8% to 11.9% p.a. as at 31 December 2016 (2015: from 7.2% to 15.6% p.a.) depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-resident companies for the benefit of credit organisations resident in the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 12 April 2017 to 3 November 2020 (2015: from 3 February 2016 to 3 November 2020); coupon rates from 5.0% to 9.1% p.a. (2015: from 4.9% to 9.2% p.a.); and yields to maturity from 1.5% to 3.9% p.a. as at 31 December 2016 (2015: from 1.5% to 6.7% p.a.) depending on the type of Eurobond issue.

Municipal bonds are securities denominated in Russian Rouble issued by the municipal administrations of Saint-Petersburg, Moscow, Novosibirsk, Moscow Region, Belgorod Region, Volgograd Region, Voronezh Region, Smolensk Region, Tomsk Region, Tula Region, Samara Region, Krasnoyarsk Territory, Stavropol Territory, Sakha Republic and Komi Republic (2015: Saint-Petersburg, Moscow, Smolensk Region, Tula Region, Voronezh Region, Belgorod Region, Tomsk Region, Volgograd Region, Stavropol Territory, Krasnoyarsk Territory and Sakha Republic). These bonds have maturity dates from 17 December 2017 to 21 November 2023 (2015: from 1 June 2016 to 4 November 2020); coupon rates from 6.4% to 12.8% p.a. (2015: from 6.9% to 8.9% p.a.); and yields to maturity from 6.1% to 10.9% p.a. as at 31 December 2016 (2015: from 8.8% to 13.5% p.a.), depending on the type of bond issue.

Federal loan bonds are government securities denominated in Russian Rouble issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 19 April 2017 to 17 September 2031 (2015: from 20 January 2016 to 19 January 2028); coupon rates from 6.2% to 8.5% p.a. (2015: from 6.2% to 11.9% p.a.); and yields to maturity from 8.2% to 8.7% p.a. as at 31 December 2016 (2015: from 8.8.% to 10.9% p.a.) depending on the type of bond issue.

As at 31 December 2015, Eurobonds of the Russian Federation are interest bearing securities denominated in Russian Rouble issued by the Ministry of Finance of the Russian Federation and traded in the international market. Eurobonds of the Russian Federation have maturity date on 10 June 2018; coupon rate at 7.9% p.a.; and yield to maturity at 10.7 % p.a. as at 31 December 2015.

As at 31 December 2016, equity securities are shares of Russian companies (2015: shares of Russian companies and shares of a close-ended real estate mutual investment fund).

12 Investment Securities Available-For-Sale (continued)

Debt investment securities available-for-sale are carried at fair value, which also reflects the credit risk of these securities.

For definition of groups refer to note 7.

Analysis by credit quality of debt investment securities available-for-sale as at 31 December 2016 is as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Municipal bonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	123 492	-	-	-	123 492
Group B	19 122 136	3 269 715	1 678 892	984 945	25 055 688
Group C	308 904	-	368 696	-	677 600
Group D	119 312	-	93 908	-	213 220
Total debt investment securities available-for-sale	**19 673 844**	**3 269 715**	**2 141 496**	**984 945**	**26 070 000**

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

In thousands of Russian Roubles	Corporate bonds	Federal loan bonds	Corporate Eurobonds	Municipal bonds	Eurobonds of the Russian Federation	Total
Not overdue or impaired						
Group A	1 271 356	-	17 336	-	-	1 288 692
Group B	12 187 901	6 415 985	4 069 718	353 745	107 673	23 135 022
Group C	708 400	-	-	222 571	-	930 971
Group D	108 579	-	-	34 495	-	143 074
Total debt investment securities available-for-sale	**14 276 236**	**6 415 985**	**4 087 054**	**610 811**	**107 673**	**25 497 759**

Currency and maturity analyses of investment securities available-for-sale are disclosed in note 32.

13 Investment Property

In thousands of Russian Roubles	2016	2015
Land	5 091 969	3 014 188
Premises	734 486	220 464
Impairment of investment property	(71 912)	(53 442)
Accumulated depreciation	(28 318)	(18 678)
Total investment property	**5 726 225**	**3 162 532**

Investment property represents land plots and buildings.

Changes in investment property are as follows:

In thousands of Russian Roubles	2016	2015
Book value before accumulated depreciation as at 1 January	**3 181 210**	**1 605 154**
Transfers and disposals	2 591 803	1 576 056
Impairment of investment property	(18 470)	-
Book value before accumulated depreciation as at 31 December	**5 754 543**	**3 181 210**

The fair value of investment property as at 31 December 2016 and 31 December 2015 does not differ significantly from its book value.

The estimates of fair values of investment property of the Group are obtained from an independent appraiser, who holds a recognised and relevant professional qualification and who has experience in valuation of investment property of similar location and category. The fair value is assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. The fair value estimate of investment property is classified to Level 3 of hierarchy.

14 Premises, Equipment and Intangible assets

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2015		13 038 936	3 039 648	403 448	22 813	16 504 845
Accumulated depreciation		-	(1 957 768)	-	(11 889)	(1 969 657)
Net book value as at 1 January 2015		**13 038 936**	**1 081 880**	**403 448**	**10 924**	**14 535 188**
Additions		146 828	591 421	40 771	16 952	795 972
Transfers between categories		-	53 311	(53 311)	-	-
Disposals		(107 126)	(8 460)	-	(18)	(115 604)
Depreciation and amortisation charge	27	(299 676)	(434 834)	-	(4 100)	(738 610)
Net book value as at 31 December 2015		**12 778 962**	**1 283 318**	**390 908**	**23 758**	**14 476 946**
Cost as at 31 December 2015		13 077 275	3 580 806	390 908	39 741	17 088 730
Accumulated depreciation		(298 313)	(2 297 488)	-	(15 983)	(2 611 784)
Net book value as at 31 December 2015		**12 778 962**	**1 283 318**	**390 908**	**23 758**	**14 476 946**
Additions		10 831	809 888	80 272	386 734	1 287 725
Transfers between categories		156 356	36 954	(193 310)	-	-
Disposals and transfers to investment property		(514 583)	(7 905)	(33)	(2)	(522 523)
Depreciation and amortisation charge	27	(278 148)	(520 213)	-	(138 807)	(937 168)
Net book value as at 31 December 2016		**12 153 418**	**1 602 042**	**277 837**	**271 683**	**14 304 980**
Cost as at 31 December 2016		12 723 648	4 310 244	277 837	426 473	17 738 202
Accumulated depreciation		(570 230)	(2 708 202)	-	(154 790)	(3 433 222)
Net book value as at 31 December 2016		**12 153 418**	**1 602 042**	**277 837**	**271 683**	**14 304 980**

Construction in progress in 2016 mainly consists of refurbishment of branch and outlet premises.

Premises were valued as at 31 December 2014 by an independent appraiser. The valuation was based on market comparisons. As at 31 December 2016, the Group did not revalue premises due to non-significant changes at the real estate market during 2016.

As at 31 December 2016, the carrying value includes revaluation of premises in the total amount of RR 4 775 620 thousand (2015: RR 4 775 620 thousand). The Group has recorded a deferred tax liability of RR 955 124 thousand (2015: RR 955 124 thousand). The fair value estimate of premises is classified to Level 3 of hierarchy.

If premises were recorded at cost less accumulated depreciation, their carrying value as at 31 December 2016 would amount to RR 8 540 840 thousand (2015: RR 8 831 905 thousand).

15 Other Assets

In thousands of Russian Roubles	Note	2016	2015
Receivables from the sale of long-term assets held-for-sale		1 049 950	-
Plastic cards receivables		605 280	471 255
Settlements on operations with securities		363	322
Total financial assets		**1 655 593**	**471 577**
Settlements on income tax		1 310 270	412 959
Deferred expenses		841 039	936 020
Receivables and advances		280 081	551 266
Prepaid taxes other than income		84 428	302 637
Rent receivables		71 707	26 039
Deferred tax asset	28	2 460	449
Other		307 694	277 453
Total non-financial assets		**2 897 679**	**2 506 823**
Total other assets		**4 553 272**	**2 978 400**

Other financial assets of the Group do not include individually impaired and overdue assets. No provision was created for other financial assets in 2016 and 2015.

Receivables and advances relate to the purchase by the Group of new computer software and equipment, as well as prepayments for repair works on existing premises and equipment.

Currency and maturity analyses of other assets are disclosed in note 32.

16 Long-Term Assets Held-for-sale

In thousands of Russian Roubles	2016	2015
Land	798 518	714 463
Property	278 467	278 396
Total long-term assets held-for-sale	**1 076 985**	**992 859**

Long-term assets held-for-sale are represented by assets obtained by the Bank by foreclosing the collateral for loans and advances to customers. The Group's policy is to sell these assets as soon as it is practicable.

Currency analysis of long-term assets held-for-sale is disclosed in note 32.

17 Due to Banks

In thousands of Russian Roubles	2016	2015
Amounts payable under sale and repurchase agreements	69 928 513	96 176 414
Term placements of banks	61 656 306	38 974 735
Correspondent accounts of banks	136 948	189 647
Total due to banks	**131 721 767**	**135 340 796**

As at 31 December 2016, included in due to banks are securities sale and repurchase agreements and agreements on the return of collateral received under securities lending transactions with credit institutions in the amount of RR 69 928 513 thousand (2015: 96 176 414 thousand).

17 Due to Banks (continued)

Securities pledged under these sale and repurchase agreements and loaned are securities:

from own portfolio with the fair value of RR 61 448 577 thousand (2015: with the fair value of RR 70 314 051 thousand);

reclassified from trading securities to loans to customers with the carrying value of RR 963 529 thousand (2015: RR 10 547 908 thousand);

reclassified from trading securities to due from banks with the carrying value of RR 2 908 913 thousand (2015: RR 6 227 386 thousand);

transferred to the Group under reverse sale and repurchase agreements (without initial recognition) with the fair value of RR 12 407 144 thousand (2015: RR 5 094 550 thousand).

The Group attracted a subordinated loan from the "Deposit Insurance Agency" State Corporation in the form of federal loan bonds with the fair value of RR 16 588 599 thousand (2015: RR 15 446 877 thousand). As at 31 December 2015, the securities with the fair value of RR 12 381 011 thousand were pledged under sale and repurchase agreements.

Currency and maturity analyses of due to banks are disclosed in note 32. Interest rate analysis of due to banks is disclosed in note 32.

18 Customer Accounts

In thousands of Russian Roubles	**2016**	**2015**
State and public organisations		
- Current/settlement accounts	8 372	119 064
Other legal entities		
- Current/settlement accounts	58 527 163	57 858 301
- Term deposits	87 481 283	79 487 386
- Amounts payable under sale and repurchase agreements	16 508 702	51 791
Individuals		
- Current accounts/demand deposits	45 663 539	41 787 505
- Term deposits	141 755 809	146 279 903
Total customer accounts	**349 944 868**	**325 583 950**

State and public organisations exclude government owned profit oriented businesses.

As at 31 December 2016, customer accounts include securities sale and repurchase agreements signed with legal entities in the amount of RR 16 508 702 thousand (2015: none).

Securities pledged as collateral under these sale and repurchase agreements and loaned are as follows:

from the own portfolio with a fair value of RR 351 669 thousand (2015: none)

transferred to the Group under reverse sale and repurchase agreements (without initial recognition) with a fair value of RR 17 036 991 thousand (2015: none).

18 Customer Accounts (continued)

As at 31 December 2015, customer accounts include a security deposit in the amount of RR 51 791 thousand placed by the counterparty under reverse repurchase agreements.

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	187 419 348	53,6	188 067 408	57.8
Construction	39 974 147	11,4	33 351 086	10.2
Financial services	31 089 055	8,9	14 825 455	4.5
Trade	20 691 669	5,9	24 330 354	7.5
Manufacturing	20 559 840	5,9	17 406 994	5.3
Real estate	15 099 719	4,3	10 138 196	3.1
Art, science and education	13 081 248	3,7	14 658 073	4.5
Transport	9 828 630	2,8	7 382 190	2.3
Public utilities	1 323 272	0,4	4 396 606	1.4
Communications	793 404	0,2	911 422	0.3
Medical institutions	575 241	0,2	497 408	0.2
Cities and municipalities	552 757	0,2	664 043	0.2
Energy	430 757	0,1	551 885	0.2
Other	8 525 781	2,4	8 402 830	2.5
Total customer accounts	**349 944 868**	**100,0**	**325 583 950**	**100.0**

As at 31 December 2016, customer accounts include deposits amounting to RR 2 145 390 thousand representing security for irrevocable liabilities on guarantees (2015: RR 2 414 553 thousand) and RR 1 048 874 representing security on letters of credit.

Currency and maturity analyses of customer accounts are disclosed in note 32. Intrest rate analysis of customer accounts is disclosed in note 32. Fair value analysis of customer accounts is disclosed in note 35. Information on related party transactions is disclosed in note 36.

19 Bonds Issued

In thousands of Russian Roubles	**2016**	**2015**
Subordinated Eurobonds	14 878 415	19 200 016
Mortgage secured bonds issued by the mortgage agent	1 004 300	-
Total bonds issued	**15 882 715**	**19 200 016**

In July 2007 the Group placed 1 000 interest bearing USD denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. In December 2015 the Group repaid USD 25 028 thousand, in July 2016 the Group repaid USD 1 100 thousand. As at 31 December 2016, the carrying value of these bonds is USD 61 861 thousand, the equivalent of RR 3 752 304 thousand (2015: USD 75 816 thousand, the equivalent of RR 5 525 679 thousand). These subordinated Eurobonds will mature on 25 July 2017, have a nominal coupon rate of 7.63% p.a. and effective interest rate of 8.71% p.a.

19 Bonds Issued (continued)

In October 2012 the Group placed 505 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by BNP Paribas and UBS. The issue was registered on the Irish Stock Exchange. In December 2015 the Group repaid USD 15 737 thousand. As at 31 December 2016, the carrying value of these bonds is USD 85 079 thousand, the equivalent of RR 5 160 605 thousand (2015: USD 86 233 thousand, the equivalent of RR 6 284 937 thousand). These subordinated bonds will mature on 24 October 2018, have a nominal coupon rate of 11.00% p.a. and effective interest rate of 11.65% p.a.

In October 2013 the Group placed 500 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by J.P. Morgan and VTB Capital. The issue was registered on the Irish Stock Exchange. As at 31 December 2016, the carrying value of these bonds is USD 98 348 thousand, the equivalent of RR 5 965 506 thousand (2015: USD 101 388 thousand, the equivalent of RR 7 389 400 thousand). These subordinated bonds will mature on 22 April 2019, have a nominal coupon rate of 10.75% p.a. and effective interest rate of 11.28% p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors of the Bank.

In November 2016 mortgage agent “MA BSPB” LLC issued mortgage secured bonds with a nominal value of RR 3 702 530 thousand, secured by a mortgage package and guarantee of JSC “AIZHK”. The coupon rate of the bonds is 9.8% and final contractual maturity is till 2043. As at 31 December 2016, the Bank purchased part of bonds with the nominal value of RR 2 700 000 thousand (2015: there were no mortgage secured bonds).

The final maturity date of the mortgage secured bonds can differ from contractual in case of early repayment of mortgages pledged as security.

Currency and maturity analyses of bonds issued are disclosed in note 32.

20 Promissory Notes and Deposit Certificates Issued

In thousands of Russian Roubles	**2016**	**2015**
Promissory notes	7 882 282	17 441 144
Deposit certificates	2	2
Total promissory notes and deposit certificates issued	**7 882 284**	**17 441 146**

Currency and maturity analyses of promissory notes and deposit certificates issued are disclosed in note 32. An interest rate analysis of promissory notes and deposit certificates issued is disclosed in note 32.

21 Other Borrowed Funds

In thousands of Russian Roubles	**2016**	**2015**
Subordinated loans	1 565 972	1 565 459
AKA AFK	938 171	1 076 840
Total other borrowed funds	**2 504 143**	**2 642 299**

In August 2009 the Group attracted a subordinated loan from Vnesheconombank (VEB) in the amount of RR 1 466 000 thousand maturing in 2014. In December 2014 the loan was extended till 27 December 2019. As at 31 December 2016, the carrying value of this loan is RR 1 465 972 thousand (2015: RR 1 465 459 thousand). The loan had an initial interest rate of 8.00% p.a. In August 2010 the interest rate was decreased to 6.50% p.a.

In February 2014 in course of a subsidiary acquisition the Group acquired a subordinated loan in the amount of RR 100 000 thousand maturing in February 2018. As at 31 December 2016, the carrying value of this subordinated loan is RR 100 000 thousand (2015: RR 100 000 thousand). This subordinated loan bears fixed interest rate of 10.00% p.a.

20 Other Borrowed Funds (continued)

In March and September 2016 according to the repayment schedule the Group partly repaid the credit facility granted by AKA Ausfuhrkredit-Gesellschaft m.b.H. in the amount of EUR 2 691 thousand and EUR 3 948 thousand accordingly. In April 2016 the Group attracted two additional tranches in the total amount of EUR 5 029 thousand under this credit facility and in October 2016 the Group attracted the last tranche in the amount of EUR 2 794 thousand. The loan maturity is on 30 March 2018. As at 31 December 2016, the carrying value of total tranches of this loan is EUR 14 703 thousand, the equivalent of RR 938 171 thousand (2015: EUR 13 512 thousand, the equivalent of RR 1 076 840 thousand). The interest rate on this loan is EURIBOR + 1.75% p.a., which as at 31 December 2016 is 1.75% p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated loans are subordinated to the claims of all other creditors and depositors of the Bank.

The Group is required to meet certain covenants attached to subordinated loans and funds from AKA Ausfuhrkredit-Gesellschaft m.b.H. Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2016 and 31 December 2015, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 32.

22 Other Liabilities

In thousands of Russian Roubles	Note	2016	2015
Plastic card payables		612 096	142 443
Fair value of guarantees and import letters of credit		39 538	64 117
Dividends payable	30	6 054	5 785
Accounts payable		5 997	1 170
Other		95 927	1 060
Total financial liabilities		**759 612**	**214 575**
Income tax payable		719 685	-
Amounts payable to employees		718 789	445 685
Deferred tax liability	28	622 104	2 809 073
Allowance for credit related commitments	34	696 204	134 901
Accrued expenses		555 435	376 674
Taxes payable other than income		122 575	133 534
Other		135 457	59 520
Total non-financial liabilities		**3 570 249**	**3 959 387**
Total other liabilities		**4 329 861**	**4 173 962**

Analysis of movements in the allowance for credit related commitments during 2016 and 2015 is as follows:

In thousands of Russian Roubles	2016	2015
Allowance at 1 January	**134 901**	**-**
Provision for impairment of credit related commitments during the year	561 303	134 901
Allowance at 31 December	**696 204**	**134 901**

Currency and maturity analyses of other liabilities are disclosed in note 32.

23 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Preference shares	Share premium	Total
As at 1 January 2015	**415 005**	**19 589**	**3 519 734**	**176 940**	**21 393 878**	**25 090 552**
Sale of shares	24 549	511	24 549	511	-	**25 060**
As at 31 December 2015	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**
As at 31 December 2016	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**

As at 31 December 2016, the nominal registered amount of issued share capital of the Bank prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 459 654 thousand (2015: RR 459 654 thousand). As at 31 December 2016, all of the outstanding shares of the Bank are authorised, issued and fully paid in.

As at 31 December 2016, all ordinary shares have a nominal value of RR 1 (one) per share (2015: RR 1 per share). Each share carries one vote.

In 2016 the Bank repurchased 12 613 082 ordinary shares in accordance with the resolution of the Supervisory Board. As at 31 December 2016, the Bank sold all shares repurchased at amount higher than their repurchase price.

As at 31 December 2016, the Bank has one type of preference shares with a nominal value of RR 1 (one) in the amount of 20 100 000 shares.

Preference shares carry no voting rights and are non-redeemable.

If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares are not cumulative.

Share premium represents the excess of contributions received over the nominal value of shares issued.

24 Other Comprehensive Income Recognised in Equity

The analysis of other comprehensive income by each component of equity is as follows:

In thousands of Russian Roubles	Note	Revaluation reserve for investment securities available-for-sale	Total comprehensive income
Year ended 31 December 2015			
Items that are or will be reclassified subsequently to profit or loss:			
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		(727 652)	**(727 652)**
Gain from revaluation of investment securities available-for-sale		3 265 377	**3 265 377**
Deferred income tax recognised in equity related to other comprehensive income	28	(507 545)	**(507 545)**
Total other comprehensive income		**2 030 180**	**2 030 180**
Year ended 31 December 2016			
Items that are or will be reclassified subsequently to profit or loss:			
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		(982 912)	**(982 912)**
Gain from revaluation of investment securities available-for-sale		1 228 977	**1 228 977**
Deferred income tax recognised in equity related to other comprehensive income	28	(49 213)	**(49 213)**
Total other comprehensive income		**196 852**	**196 852**

25 Interest Income and Expense

In thousands of Russian Roubles	2016	2015
Interest income		
Loans and advances to customers	38 829 724	38 952 184
Investment securities available-for-sale	7 054 517	5 960 165
Trading securities	2 534 116	1 131 420
Reverse sale and repurchase agreements	2 147 067	2 205 236
Due from banks	1 280 015	2 535 493
Correspondent accounts with banks	6 371	8 977
Total interest income	**51 851 810**	**50 793 475**
Interest expense		
Due to banks	10 778 702	11 209 660
Term deposits of individuals	9 371 065	10 182 789
Term deposits of legal entities	6 515 135	8 636 327
Bonds issued	1 744 529	2 191 649
Current/settlement accounts	726 298	248 339
Promissory notes and deposit certificates issued	442 519	625 141
Other borrowed funds	128 673	222 088
Total interest expense	**29 706 921**	**33 315 993**
Net interest income	**22 144 889**	**17 477 482**

Information on related party transactions is disclosed in note 36.

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	2016	2015
Fee and commission income		
Settlement transactions	2 188 588	2 043 339
Plastic cards and cheque settlements	2 022 110	1 320 886
Guarantees and letters of credit issued	976 956	863 815
Cash transactions	314 297	243 013
Cash collections	190 308	167 792
Custody operations	42 453	33 405
Foreign exchange transactions	4 226	36 946
Other	91 519	63 142
Total fee and commission income	**5 830 457**	**4 772 338**
Fee and commission expense		
Plastic cards and cheque settlements	600 134	449 247
Securities	195 028	54 097
Settlement transactions	164 858	136 470
Foreign exchange transactions	100 578	24 230
Guarantees and letters of credit	28 874	37 018
Banknote transactions	7 792	8 304
Other	33 674	20 662
Total fee and commission expense	**1 130 938**	**730 028**
Net fee and commission income	**4 699 519**	**4 042 310**

Information on related party transactions is disclosed in note 36.

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2016	2015
Staff costs		5 628 561	4 473 777
Depreciation and amortisation of premises, equipment and intangible assets	14	937 168	738 610
Contributions to deposits insurance system		787 307	607 733
Other costs related to premises and equipment		736 425	589 890
Information and consulting services		641 342	938 277
Taxes other than on income		681 051	743 419
Rent expenses		515 784	433 451
Postal, cable and telecommunication expenses		328 962	203 036
Security expenses		307 048	266 517
Transportation costs		272 699	237 176
Professional services		205 672	122 290
Advertising and marketing services		170 870	144 775
Charity expenses		60 457	40 042
Other administrative expenses		1 465 256	1 302 476
Total administrative and other operating expenses		**12 738 602**	**10 841 469**

28 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2016	2015
Current tax	3 093 638	120 499
Deferred tax	(2 238 193)	1 008 010
Income tax expense for the year	**855 445**	**1 128 509**

The income tax rate applicable to the majority of the Group’s income is 20% (2015: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2016	2015
Profit before tax	**5 133 255**	**4 747 024**
Tax charge at statutory rate	1 026 651	949 405
- Non-deductible expenses	46 695	219 524
- Income on government securities taxed at different rates	(43 451)	(40 420)
- Tax benefits effect	(273 655)	-
- Expenses on taxes related to prior periods	99 205	-
Income tax expense for the year	**855 445**	**1 128 509**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying value of assets and liabilities for IFRS financial reporting purposes and their income tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2015: 20%), except for income on state securities which is taxed at 15% (2015: 15%).

In thousands of Russian Roubles	31 December 2015	Charged to profit or loss	Charged directly to equity	31 December 2016
Tax effect of temporary differences				
Provision for loan impairment	(1 006 369)	2 206	-	(1 004 163)
Accrued income/expense	1 922 749	(267 057)	-	1 655 692
Valuation of bonds issued at amortised cost	(44 645)	16 570	-	(28 075)
Valuation of other borrowed funds at amortised cost	19 528	(18 743)	-	785
Valuation of trading and other securities at fair value	(2 705 532)	3 340 534	(49 213)	585 789
Premises and equipment	(1 212 881)	(30 618)	-	(1 243 499)
Other	(184 904)	(401 269)	-	(586 173)
Tax loss carry-forward	403 430	(403 430)	-	-
Recognised deferred tax liability	**(2 808 624)**	**2 238 194**	**(49 213)**	**(619 644)**

28 Income Taxes (continued)

In thousands of Russian Roubles	**31 December 2014**	**Charged to profit or loss**	**Charged directly to equity**	**31 December 2015**
Tax effect of temporary differences				
Provision for loan impairment	698 062	(1 704 431)	-	(1 006 369)
Accrued income/expense	10 711	1 912 038	-	1 922 749
Valuation of bonds issued at amortised cost	(27 357)	(17 288)	-	(44 645)
Valuation of other borrowed funds at amortised cost	8 117	11 411	-	19 528
Valuation of due from banks at amortised cost	(2 915)	2 915	-	-
Valuation of trading and other securities at fair value	(682 106)	(1 515 881)	(507 545)	(2 705 532)
Premises and equipment	(1 155 422)	(57 459)	-	(1 212 881)
Other	(142 159)	(42 745)	-	(184 904)
Tax loss carry-forward	-	403 430	-	403 430
Recognised deferred tax liability	**(1 293 069)**	**(1 008 010)**	**(507 545)**	**(2 808 624)**

29 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in issue during the year less treasury stock.

As at 31 December 2016, the Bank has no potentially dilutive preference shares. Thus, diluted earnings per share equal to basic earnings per share.

Basic earnings per share are calculated as follows:

In thousands of Russian Roubles	**2016**	**2015**
Profit attributable to the Bank’s shareholders	4 277 810	3 618 515
Less dividends on preference shares	(2 211)	(2 211)
Profit attributable to ordinary shareholders of the Bank	**4 275 599**	**3 616 304**
Weighted average number of ordinary shares in issue (thousands)	438 151	434 241
Basic earnings per share (expressed in RR per share)	**9,76**	**8,33**

30 Dividends

	2016		2015	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable as at 1 January	**5 785**	**-**	**4 146**	**-**
Dividends declared during the year	459 313	2 211	887 842	2 211
Dividends paid during the year	(459 044)	(2 211)	(886 203)	(2 211)
Dividends payable as at 31 December	**6 054**	**-**	**5 785**	**-**
Dividends per share declared during the year (RR per share)	**1,05**	**0,11**	**2,02**	**0,11**

All dividends were declared and paid in Russian Roubles.

31 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. The Management Board of the Bank performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, credit lines, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – retail and private banking services, customer current accounts, deposits, retail investment products, custody services, credit and debit cards, consumer loans, mortgages and other loans to individuals and VIP clients.

Transactions between the business segments are performed on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense for the segment. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements.

Factors used by management to define reporting segments

The Group's segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

31 Segment Analysis (continued)

Evaluation of profit or loss and assets of operating segments

The Management Board of the Bank analyses financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) provision for loan impairment is recognised based on Russian legislation, and not on the basis of the model of “incurred losses” specified in IAS 39

(v) fee and commission income on lending operations is recognised immediately and not in the future periods using the effective interest rate method

(vi) information on consolidated companies is not included.

The Management Board of the Bank evaluates the business segment results based on the amount of profit before income tax.

31 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the Group's main reporting business segments for the years ended 31 December 2016 and 31 December 2015 is set out below (in accordance with the management information).

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2016					
External revenues	35 234 934	13 180 508	9 099 560	72 343	**57 587 345**
Internal funding charge	(14 269 065)	4 973 512	9 295 553	-	**-**
Total revenues	**20 965 869**	**18 154 020**	**18 395 113**	**72 343**	**57 587 345**
Revenues comprise:					
- External interest income	31 082 919	13 174 544	7 233 098	-	51 490 561
- Fee and commission income	3 666 082	5 964	1 860 678	-	5 532 724
- Other operating income	485 933	-	5 784	72 343	564 060
Segment results	**(4 649 212)**	**9 248 044**	**4 675 199**	**-**	**9 274 031**
Unallocated costs	-	-	-	(5 977 799)	(5 977 799)
Profit before tax					**3 296 232**
Income tax expense	-	-	-	(1 001 636)	(1 001 636)
Profit (loss)	**(4 649 212)**	**9 248 044**	**4 675 199**	**(6 979 435)**	**2 294 596**
Total segment assets	**299 219 048**	**232 242 047**	**56 332 236**	**27 409 712**	**616 203 043**
Other segment items					
Depreciation and amortisation charge	(251 296)	(81 198)	(187 763)	(293 596)	(813 853)
Provision for loan impairment	(12 934 014)	(7 835)	(790 518)	-	(13 732 367)

31 Segment Analysis (continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2015					
External revenues	33 466 480	12 950 719	7 585 620	708 912	**54 711 731**
Internal funding charge	(8 277 754)	(2 987 674)	11 265 428	-	**-**
Total revenues	**25 188 726**	**9 963 045**	**18 851 048**	**708 912**	**54 711 731**
Revenues comprise:					
- External interest income	30 211 117	12 944 162	6 264 873	-	49 420 152
- Fee and commission income	3 233 719	6 557	1 292 573	-	4 532 849
- Other operating income	21 644	-	28 174	708 912	758 730
Segment results	**1 186 430**	**1 404 413**	**5 375 406**	**-**	**7 966 249**
Unallocated costs	-	-	-	(4 741 759)	(4 741 759)
Profit before tax					**3 224 490**
Income tax expense	-	-	-	(942 552)	(942 552)
Profit (loss)	**1 186 430**	**1 404 413**	**5 375 406**	**(5 684 311)**	**2 281 938**
Total segment assets	**308 087 875**	**207 217 480**	**49 933 610**	**29 203 804**	**594 442 769**
Other segment items					
Depreciation and amortisation charge	(179 462)	(26 973)	(122 151)	(205 846)	(534 432)
(Provision for) recovery of loan impairment	(12 303 223)	10 657	(1 108 855)	-	(13 401 421)

31 Segment Analysis (continued)

A reconciliation of segment information under management accounting with consolidated financial statements prepared in accordance with IFRS assets as at 31 December 2016 and 31 December 2015 is set out below:

In thousands of Russian Roubles	2016	2015
Total segment assets	**616 203 043**	**594 442 769**
Adjustment of provision for loan impairment	(39 642 550)	(35 010 457)
Adjustments of income/expense accruals	1 286 129	186 778
Premises, equipment and intangible assets depreciation and fair value adjustments	1 559 913	1 488 173
Fair value and amortised cost adjustments	1 524 379	903 329
Income tax adjustments	(523 304)	309 091
Elimination of assets additionally recognised in management accounting	(1 248 595)	25 717
Other adjustments	238 974	209 176
Consolidation	879 531	(20 000)
Total assets under IFRS	**580 287 520**	**562 534 576**

A reconciliation of segment information under management accounting with IFRS profit before tax for the years ended 31 December 2016 and 31 December 2015 is set out below:

In thousands of Russian Roubles	2016	2015
Total segment profit before tax	**3 296 232**	**3 224 490**
Adjustment of provision for loan impairment	1 325 660	2 175 037
Adjustments of income/expense accruals	(372 871)	(881 050)
Premises, equipment and intangible assets depreciation and fair value adjustments	71 740	(24 620)
Fair value and amortised cost adjustments	704 405	1 083 047
Consolidation	(23 193)	6 360
Other adjustments	131 282	(836 240)
Total profit before tax under IFRS	**5 133 255**	**4 747 024**

Geographical information. The major part of the Group’s activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in Moscow.

There are no external customers (groups of related customers) with individual income from operations exceeding 10% of total income from operations with such customers.

32 Risk Management, Corporate Governance and Internal Control

Corporate governance and internal control

Corporate governance system of the Group is based on full compliance with requirements of statutory legislation and the CBRF, protection of shareholders’ interests and considers world best practices to the largest possible extent. The Group fully complies with the legislation requirements concerning shareholders’ rights observance.

The supreme governing body of the Bank is the General Shareholders’ Meeting that makes strategic decisions on the Bank’s operations in accordance with Federal Law No. 208-FZ dated 26 December 1995 *On Joint-Stock Companies* and the Charter.

The function of counting commission of the General Shareholders’ Meeting is performed by an independent Registrar – JSC “Independent Registar Company”.

General activities of the Bank are managed by the Supervisory Board, except for areas in competence of the General Shareholders’ Meeting. Candidates to the Supervisory Board are elected and approved by the General Shareholders’ Meeting. The Supervisory Board sets key strategic directions of the Bank’s activity and supervises performace of management executive bodies.

On 26 May 2016 Annual General Shareholders’ Meeting of PJSC “Bank Saint Petersburg” and Supervisory Board Meeting were conducted. According to their resolutions composition of the Bank’s Supervisory Board was approved, as well as Committees of the Supervisory Board were considered as necessary and formed appropriate to mission and objectives of PJSC “Bank Saint Petersburg” activities.

As at 31 December 2016, the composition of the Supervisory Board is as follows:

Elena Viktorovna Ivannikova – Chairperson of the Supervisory Board, member of the Supervisory Board since 2005; Vladislav Stanislavovich Guz – Deputy Chairman of the Supervisory Board, member of the Supervisory Board since June 2014; Alexander Vasilyevich Savelyev – the Chairman of the Management Board, elected to the Supervisory Board in 2001, Chairman of the Strategy Committee since June 2015; Susan Gail Buyske – member of the Bank’s Supervisory Board since April 2012, Chairperson of the Risk Management Committee since August 2012; Andrey Pavlovich Bychkov – member of the Bank’s Supervisory Board since April 2010, Chairman of the Audit Committee since May 2016; Alexey Andreevich Germanovich – member of the Supervisory Board of the Bank since June 2014; Andrey Taledovich Ibragimov – member of the Bank’s Supervisory Board since 2005; Alexander Ivanovich Polukeev – member of the Bank’s Supervisory Board since June 2014; Alexander Vadimovich Pustovalov – member of Bank’s the Supervisory Board since April 2012, Chairman of the Human Resources and Remuneration Committee since May 2016.

The following changes in the composition the Bank’s Supervisory Board were adopted in accordance with the resolution of the Supervisory Board dated 14 July 2016:

- Elena Viktorovna Ivannikova is elected the Chairperson of the Supervisory Board, Vladislav Stanislavovich Guz is elected Deputy Chairman of the Supervisory Board.

As at 31 December 2016, Andrey Pavlovich Bychkov, Alexey Andreevich Germanovich, Alexander Ivanovich Polukeev, members of the Supervisory Board, proved their compliance with independence requirements of CJSC MICEX listing rules.

The Supervisory Board includes Committees, established for the purpose of review and analysis of matters in competence of the Supervisory Board, preparation of recommendations on these matters for the Supervisory Board and execution of other functions, vested to these committees.

The primary objective of the Strategy Committee is to assist the Supervisory Board of the Bank in determining long-term and medium-term strategies of the Bank and priority areas of its activity; consideration of large innovation and investment programs as well as projects of the Bank.

The primary objective of the Risk Management Committee is to assist the Supervisory Board of the Bank in determining priority areas for the Bank’s banking risk management efforts and to support appropriate risk management function within the Group.

32 Risk Management, Corporate Governance and Internal Control (continued)

The primary objectives of the Human Resources and Remuneration Committee are provision of effective HR policy, involvement of qualified specialists in the Bank’s governance and creating incentives for efficient functioning, preparation of recommendations for the Supervisory Board on applicants for the key management positions and development of principles and criteria for remuneration rates for the key management personnel of the Bank.

The primary objective of the Audit Committee is to assist the Supervisory Board in efficient assessment and control over business activities of the Bank and to control the completeness and fairness of the consolidated financial statements and the process of their preparation and disclosure, and the performance of internal control and internal audit functions.

Corporate Secretary’s Office is responsible for compliance with the requirements of current legislation, the Charter and other internal policies of the Bank, concerning shareholders’ rights and protection of their interests during preparation and implementation of corporate procedures by the Bank. Corporate Secretary’s Office also supports cooperation of the Bank with its shareholders, holding of General Shareholders’ Meetings and performance of the Supervisory Board and its Committees.

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

As at 31 December 2016, the composition of the Bank’s Management Board is as follows:

Alexander Vasilyevich Savelyev was elected as Chairman of the Bank’s Management Board by decision of the Supervisory Board on 14 July 2016.

Members of the Management Board: Maris Mancinskis, first Deputy Chairman of the Management Board, holding the office of Chief Executive Officer, became a member of the Management Board in September 2016, Alexander Sergeevich Konyshkov, Deputy Chairman of the Management Board, is in the Management Board since July 2014; Vladimir Pavlovich Skatin, Deputy Chairman of the Management Board, is in the Management Board since June 2008; Konstantin Yurievich Balandin, Deputy Chairman of the Management Board, is in the Management Board since January 2008; Tatyana Yurievna Bogdanovich, Senior Vice President – director of the branch in Moscow, is in the Management Board since March 2016; Vladimir Konstantinovich Likhodievsky, Deputy Chairman of the Management Board, is in the Management Board since April 2015; Kristina Borisovna Mironova, Deputy Chairperson of the Management Board, is in the Management Board since August 2013; Vladimir Grigoryevich Reutov, Deputy Chairman of the Management Board, is in the Management Board since July 2004; Oksana Sivokobilska, Deputy Chairperson of the Management Board, is in the Management Board since November 2011; Pavel Vladimirovich Filimonenok, Deputy Chairman of the Management Board, is in the Management Board since December 2003.

On 14 July 2016 the Bank’s Supervisory Board resolved to terminate authorities of Vladislav Stanislavovich Guz, the Chairman of the Management Board of PJSC “Bank Saint Petersburg”, and to withdraw him from the Management Board on the basis of the application for withdrawal the Management Board received from Vladislav Stanislavovich Guz.

Internal control

The Internal Audit Function is a unit of the Bank and an internal control body of the Bank. The Function operates under direct supervision of the Bank’s Supervisory Board. The Function reports directly to the Bank’s Supervisory Board. The Internal Audit Function employees report to the Chairman of the Bank’s Management Board in terms of remuneration and labour discipline matters.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Function prepares quarterly reports on performance and monitoring of the internal control system of the Bank to the Supervisory Board and the Management Board of the Bank, and monthly reports to the Audit Committee of the Supervisory Board of the Bank. The Function operates on an ongoing basis independently and without any bias, while performing monitoring of the internal control system of the Bank. The Function performs reviews of all business areas of the Bank. Any department or employee of the Bank may be a subject of the Internal Audit Function review.

The Internal Control Department of the professional participant of the securities market is a unit of the Bank and operates under direct supervision of the Supervisory Board of the Bank.

The Department controls:

- compliance of the Bank’s activity with the statutory legislation requirements for operations on securities market, enforcement of investors’ rights and legally protected interests on the securities market, advertising, as well as compliance of the Bank’s regulations with its activity on the securities market
- compliance by the Bank’s officials with the statutory legislation requirements for countermeasures against unlawful insider information use and market abuse.

Risk management

The Group’s risk management function is carried out in respect of financial risks (credit, market and liquidity risks), compliance, operational, geographical, reputational and legal risks. Market risk includes currency, equity, commodity and interest rate risks.

The primary objectives of the financial risk management function are to establish and ensure compliance with risk limits and other risk restrictions. Geographical risk management includes making decisions and setting limits for transactions with counterparties – residents of countries with different levels of economic development with due consideration of geographical risk factors. The operational, legal and reputation risk management functions are intended to ensure proper functioning of internal policies and procedures, development and implementation of measures to minimise these risks.

Group’s financial risk management system includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, economic performance of Group’s clients (principally – depositors and borrowers) and regulatory changes. The Group has developed a system of reporting on significant risks and capital. As at 31 December 2016, the Group’s internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group’s significant risks, was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

Key bodies performing the Group’s financial risk management functions are the Supervisory Board, the Bank’s Management Board, the Bank’s Asset and Liability Management Committee, the Bank’s Large Credit Committee, the Corporate Credit Committee, Technical Policy Committee, the Budget Committee, the Investment Committee, the Products and Processes Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. The Supervisory Board approves the Capital and Risk Management Policy, the compliance with which is supervised by reviews and approvals of the quarterly Group’s risk management reports, both consolidated and by types of risk. The Supervisory Board makes decisions on significant transactions, on transactions in respect of which there is an interest, on transactions with related parties exceeding limits established under the Group’s Credit Policy and on transactions, the amount of which equals to or exceeds 10% of the Bank’s equity.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Management Board of the Bank is responsible for overall organisation of the Bank's financial risk management system. The Management Board of the Bank is responsible for the control over timely and adequate identification of risks and their exposure, for development of policies and procedures necessary to limit risk exposures. The Management Board coordinates different department actions in case of threat or actual liquidity crisis, approves internal documents of the Bank in respect of risk management and risk management reports.

The Banking Risks Department is responsible for establishment of the effective risk management system, and compliance with the acceptable level of total, market, operational, legal and reputation risk exposure, as well as credit risk in respect of financial markets transactions. The Banking Risks Department monitors the risk management system related to market, credit (in respect of financial institutions and securities issuers), operational, legal and reputation risks, initiates the development of methods of assessment of current risk levels, management procedures for these risks, compliance by divisions with existing procedures and limits restricting the level of these risks. The Banking Risks Department coordinates management of operational, legal and reputation risks. The Banking Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Banking Risks Department performs stress-tests based on scenario analysis for the purpose of timely identification of significant risks applicable to the Group, that may significantly affect the financial sustainability of the Group. Steps to ensure financial stability of the Group are taken based on the results of stress-tests.

The Compliance Function of the Banking Risks Department assists the Bank's management in developing a compliance control system and effective management of compliance risk the Group faces in the course of its business activity by creating mechanisms for detecting, identifying, analysing, assessing, minimising, monitoring and controlling compliance risk.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk).

The Asset and Liability Management Committee makes decisions on structural management of the consolidated statement of financial position of the Group and the related liquidity risks, and on determining and changing market risk limits including interest rate risk. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency.

The main functions of the Budget Committee are planning, management optimization and control of expenses for acquisition of resources for the operation of the Bank, long-term investments.

The Investment Committee makes decisions on investment operations and controls in the sphere of direct investments in accordance with the Investment Declaration and within the limits of the Committee stated by the Management Board, investments in potential investment objects.

The Products and Processes Committee conforms the concepts of new or changed products, considers information about the abnormal situations which occurred in the Bank's activity.

The Technical Policy Committee of the Bank reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Management Board, the Large Credit Committee, the Corporate Credit Committee, and the Small Credit Committees of the branch subdivisions are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy and makes decisions on credit risk-related transactions exceeding the limits stipulated in the Credit Policy for the Large Credit Committee. The Large Credit Committee makes decisions on credit transactions in excess of the limits stipulated for the Corporate Credit Committee. The Corporate Credit Committee makes decisions on credit transactions in excess of the limits stipulated for the Small Credit Committees. The limits for the Small Credit Committees are defined based on their performance results in terms of the risk level of decisions made and are revised at least once a year.

Decision making on loans to individuals and legal entities, granted on standard terms, is in competence of responsible employees. The level of competence is defined based on deviations from the standard terms and the risk of these deviations.

Current management of credit risks of the Group is mostly performed by its specialised subdivision, the Credit Risk Department, exercising operational control over credit risk levels. Bad assets management is carried out by a separate business subdivision – the Litigation Department.

Management is responsible for identifying and assessing risks, designing measures for prevention of risks and monitoring their effectiveness. Management constantly monitors the effectiveness of internal controls over risk management and introduces changes to existing controls if necessary.

In compliance with the Group's internal documentation the Banking Risks Department and Internal Audit Function prepare reports on a regular basis, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

Management believes that risk management system complies with the CBRF requirements and is appropriate for the scale, nature and complexity of operations.

Credit risk. The Group is exposed to credit risk which is the risk of financial loss if a borrower or counterparty fails to meet its contractual obligations.

The Group considers credit risk to include all financial assets recognised in the consolidated statement of financial position except for assets deposited in the CBRF.

The approach of the Group to credit risk management is defined in the Credit Policy. The Credit Policy is aimed at formulation of the main principles of credit transactions of the Group and credit risk, providing for implementation of the aims and goals of the Group's strategy concerning the structure, volume and quality of the loan portfolio.

<u>Risk management tools</u>

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- assessment of the borrowers' financial positions upon loan application and during ongoing loan monitoring
- assessment of credit risk and formation of loan impairment allowance in the amount of possible losses from the transaction
- structuring of credit transactions in compliance with the requirements of the Group
- evaluation of the market value of collateral for a loan, control over availability and integrity of collateral, and evaluation of financial position and creditworthiness of guarantors

32 Risk Management, Corporate Governance and Internal Control (continued)

- inquiry for credit reports from credit history bureau (“CHB”) and taking the information from CHB into consideration during the analysis of the loan application
- for credit transactions with individuals, requiring scoring evaluation of creditworthiness of the borrower – consideration of scoring grade during the analysis of the loan application
- for credit transactions with legal entities – consideration of the internal credit rating of the borrower during the analysis of the loan application
- for credit transactions with financial institutions – assessment of financial position and credit risk of the counterparty during establishment of limits for the counterparty
- when setting limits on transactions with securities which bear credit risk – assessment of financial position and credit risk of the issuer
- control over compliance with the requirements of the Credit Policy for setting the authorities on decision making in respect of credit operations, and control over the reflection of terms of credit transactions in the loan agreements or other agreements, as approved by the relevant authorities or officials
- control over timely performance of the borrowers’ obligations to the Group stipulated by the credit agreements
- insurance of collateral.

For the loan portfolio in general:

- establishment of authorities for bodies and officials
- establishment and control over the limits of credit risk
- control over covenants established by certain agreements with the lenders.

Reporting forms

Group’s management controls credit risks and the loan portfolio quality based on regular (daily, weekly and monthly) reports.

Limits for credit risk management purposes

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of the Credit Policy.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Group takes into account all information available. When establishing an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower or a group of related borrowers, the needs of each borrower or the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan.

The Bank’s Credit Policy is applicable both to recognised and unrecognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products offered by the Bank supporting the use of unrecognised Bank’s commitments for lending (guarantees, unsecured letters of credit, credit facilities, etc.) within established limits.

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies, corporate counterparties when conducting transactions in the financial lending market and performing purchase and sale of financial assets, including foreign exchange transactions, associated with counterparty credit risk. The respective limits are established for each counterparty of the Bank on the basis of a creditworthiness analysis.

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

32 Risk Management, Corporate Governance and Internal Control (continued)

The maximum exposure to credit risk from financial assets is as follows:

In thousands of Russian Roubles	**2016**	**2015**
ASSETS		
Cash and cash equivalents	13 497 723	15 130 330
Trading securities	16 835 911	13 066 124
Securities pledged under sale and repurchase agreements and loaned	61 605 634	70 299 031
Reverse sale and repurchase agreements	58 499 452	15 220 590
Due from banks	33 371 758	35 122 584
Loans and advances to customers	314 711 065	335 302 100
Investment securities available-for-sale	26 070 000	25 497 759
Other financial assets	1 655 593	471 577
Total maximum exposure	**526 247 136**	**515 084 890**

For the analysis of collateral held against loans and advances to customers and concentration of credit risk refer to note 11.

The maximum exposure to credit risk from contractual credit related commitments at the reporting date is presented in note 34.

Geographical risk. Geographical risk of the Group is almost fully determined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities of the Group are concentrated in the Russian Federation.

Saint Petersburg is the largest center of the North-Western part of the Russian Federation with a diversified economy. This is why the Bank’s historic business concentration of providing services to individuals and legal entities in Saint Petersburg is an advantage for the Group.

Market risks. The Group is exposed to the market risks arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as follows:

- currency risk - risk of losses due to exchange rate fluctuations
- interest rate risk - risk of losses due to fluctuations of market interest rates
- commodity risk – risk of losses due to fluctuations of commodity market instruments prices
- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of position limits on financial instruments and sensitivity limits, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed) and VaR limits (limits on maximum VaR).

32 Risk Management, Corporate Governance and Internal Control (continued)

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates, prices and interest rates over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and assets.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid assets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature

- a 1-day holding period assumes that all positions can be liquidated or hedged within that period

- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate.

- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day

- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other limits mentioned above (position limits and stop-loss limits).

A summary of the VaR estimates of losses as at 31 December 2016 and 31 December 2015 is as follows:

In millions of Russian Roubles

Financial instruments	**2016**	**2015**
Shares	13	17
Bonds	509	318
Eurobonds	217	33
Foreign currency and interest rate derivatives	241	251
Commodities	2	-
Aggregated VaR	569	410

The VaR estimates stated above are calculated for the trading portfolio and portfolio of investment securities available-for-sale, for the open currency position of the Bank and for the portfolio of derivative financial instruments.

The Banking Risks Department prepares proposals to establish market risk limits applied by the Bank (hereinafter including VaR limits). Limits are established by the Management Board of the Bank, the Large Credit Committee and the Asset and Liability Management Committee in accordance with their authorities. Compliance with market risk limits is daily controlled by the Operations Department (back office).

Currency risk. Currency risk is the risk of changes in income or carrying value of the Group’s financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee.

32 Risk Management, Corporate Governance and Internal Control (continued)

For currency risk management purposes the Group also uses the system of mandatory limits established by the CBRF, including limits on open positions in a foreign currency (up to 10% of the capital calculated in accordance with the CBRF regulations) and the limit on the total open position in all foreign currencies (up to 20% of the capital calculated in accordance with the CBRF regulations).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euros).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at 31 December 2016. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	17 905 311	3 161 924	12 464 431	349 538	33 881 204
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 220 803	-	-	-	3 220 803
Trading securities	13 552 223	2 917 879	5 893	650 052	17 126 047
Securities pledged under sale and repurchase agreements and loaned	11 026 087	33 349 243	17 200 368	224 548	61 800 246
Reverse sale and repurchase agreements	52 738 237	5 761 215	-	-	58 499 452
Derivative financial assets	5 537 975	-	-	-	5 537 975
Due from banks	28 034 337	4 063 081	1 274 340	-	33 371 758
Loans and advances to customers					
- loans and advances to legal entities	200 918 114	40 277 345	15 406 761	-	256 602 220
- loans and advances to individuals	56 647 486	653 017	808 342	-	58 108 845
Investment securities available-for-sale	22 326 916	4 149 146	1 446	-	26 477 508
Investment property	5 726 225	-	-	-	5 726 225
Premises, equipment and intangible assets	14 304 980	-	-	-	14 304 980
Other assets	4 294 375	224 347	31 698	2 852	4 553 272
Long-term assets held-for-sale	1 076 985	-	-	-	1 076 985
Total assets	**437 310 054**	**94 557 197**	**47 193 279**	**1 226 990**	**580 287 520**
Liabilities					
Due to banks	84 090 274	45 837 837	1 793 656	-	131 721 767
Customer accounts	269 937 962	54 721 107	25 035 446	250 353	349 944 868
Financial liabilities at fair value	4 223 164	-	-	-	4 223 164
Derivative financial liabilities	2 929 752	-	-	-	2 929 752
Bonds issued	1 004 300	14 878 415	-	-	15 882 715
Promissory notes and deposit certificates issued	2 720 233	3 576 550	1 585 501	-	7 882 284
Other borrowed funds	1 565 972	-	938 171	-	2 504 143
Other liabilities	4 192 834	119 731	17 296	-	4 329 861
Total liabilities	**370 664 491**	**119 133 640**	**29 370 070**	**250 353**	**519 418 554**
Less fair value of currency derivatives	(2 608 223)	-	-	-	(2 608 223)
Net recognised position, excluding currency derivative financial instruments	**64 037 340**	**(24 576 443)**	**17 823 209**	**976 637**	**58 260 743**
Currency derivatives	**(4 847 538)**	**24 254 858**	**(15 929 230)**	**(869 867)**	**2 608 223**
Net recognised position, including currency derivative financial instruments	**59 189 802**	**(321 585)**	**1 893 979**	**106 770**	**60 868 966**

32 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at 31 December 2015. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	19 172 226	7 432 085	9 487 036	467 570	36 558 917
Mandatory reserve deposits with the Central Bank of the Russian Federation	2 388 138	-	-	-	2 388 138
Trading securities	11 220 786	496 748	-	1 475 938	13 193 472
Securities pledged under sale and repurchase agreements and loaned	25 797 397	41 842 311	2 674 343	-	70 314 051
Reverse sale and repurchase agreements	7 987 650	7 059 936	173 004	-	15 220 590
Derivative financial assets	4 974 795	-	-	-	4 974 795
Due from banks	31 571 034	3 551 550	-	-	35 122 584
Loans and advances to customers					
- loans and advances to legal entities	187 628 350	72 248 804	23 679 799	-	283 556 953
- loans and advances to individuals	49 073 125	1 098 326	1 573 696	-	51 745 147
Investment securities available-for-sale	23 415 034	4 434 158	-	-	27 849 192
Investment property	3 162 532	-	-	-	3 162 532
Premises, equipment and intangible assets	14 476 946	-	-	-	14 476 946
Other assets	2 672 623	193 097	52 771	59 909	2 978 400
Long-term assets held-for-sale	992 859	-	-	-	992 859
Total assets	**384 533 495**	**138 357 015**	**37 640 649**	**2 003 417**	**562 534 576**
Liabilities					
Due to banks	108 394 859	25 094 710	1 851 227	-	135 340 796
Customer accounts	223 644 953	69 201 134	32 432 702	305 161	325 583 950
Financial liabilities at fair value	-	870 262	-	-	870 262
Derivative financial liabilities	498 661				498 661
Bonds issued	-	19 200 016	-	-	19 200 016
Promissory notes and deposit certificates issued	4 366 431	11 053 545	2 021 170	-	17 441 146
Other borrowed funds	1 565 459	-	1 076 840	-	2 642 299
Other liabilities	4 123 024	21 471	29 467	-	4 173 962
Total liabilities	**342 593 387**	**125 441 138**	**37 411 406**	**305 161**	**505 751 092**
Less fair value of currency derivatives	(4 476 134)	-	-	-	(4 476 134)
Net recognised position, excluding currency derivative financial instruments	**37 463 974**	**12 915 877**	**229 243**	**1 698 256**	**52 307 350**
Currency derivatives	**16 925 447**	**(13 753 551)**	**2 818 209**	**(1 513 971)**	**4 476 134**
Net recognised position, including currency derivative financial instruments	**54 389 421**	**(837 674)**	**3 047 452**	**184 285**	**56 783 484**

32 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at 31 December 2016:

In thousands of Russian Roubles	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian Roubles	407 216 942	364 169 620	(4 847 538)	38 199 784
US Dollars	94 249 592	119 133 640	24 254 858	(629 190)
Euro	47 160 748	29 364 940	(15 929 230)	1 866 578
Other	1 224 138	250 353	(869 867)	103 918
Total	**549 851 420**	**512 918 553**	**2 608 223**	**39 541 090**

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at 31 December 2015:

In thousands of Russian Roubles	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian Roubles	356 107 043	337 971 702	16 925 447	35 060 788
US Dollars	137 816 814	125 419 667	(13 753 551)	(1 356 404)
Euro	37 587 878	37 381 939	2 818 209	3 024 148
Other	1 943 508	305 161	(1 513 971)	124 376
Total	**533 455 243**	**501 078 469**	**4 476 134**	**36 852 908**

The Group’s currency derivatives position in each column represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents the fair value of the currency derivative financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a 10% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

In thousands of Russian Roubles	As at 31 December 2016	As at 31 December 2015
10% appreciation of USD against RR	(25 726)	(108 512)
10% depreciation of USD against RR	25 726	108 512
10% appreciation of Euro against RR	151 518	241 932
10% depreciation of Euro against RR	(151 518)	(241 932)

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group. In the circumstances of increased volatility in the end of 2015 and the current situation in 2016 observed movements of currency exchange rates by 10% are for indicative purposes only, the real movements of other currency exchange rates may differ.

32 Risk Management, Corporate Governance and Internal Control (continued)

Interest rate risk. The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins and accordingly profit of the Group may decrease.

The table below summarises the effective interest rates by currency for major financial instruments. The analysis is prepared based on effective rates as at 31 December 2016 and 31 December 2015 used for amortisation of the respective assets/liabilities.

	2016				2015			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0,00	0,00	0,00	0,00	0,34	0,00	0,00	0,00
Debt trading securities	9,84	3,78	2,07	0,13	11,15	4,57	-	2,54
Debt securities pledged under sale and repurchase agreements and loaned	9,59	2,21	1,32	0,01	11,56	4,44	4,98	-
R everse sale and repurchase agreements	10,56	3,20	-	-	11,59	1,92	1,95	-
Due from banks	10,33	8,04	2,36	-	11,45	10,56	-	-
Loans and advances to customers	11,78	7,67	5,63	-	13,42	8,08	6,33	-
Debt investment securities available-for-sale	11,09	3,76	-	-	11,21	4,47	-	-
Liabilities								
Due to banks	9,52	2,56	0,00	-	10,79	1,74	0,00	-
Customer accounts								
- current and settlement accounts	0,48	0,01	0,00	0,00	0,51	0,02	0,01	0,00
- term deposits								
- individuals	8,34	3,25	1,90	1,30	10,78	4,38	3,47	1,30
- legal entities	9,14	2,19	0,56	-	10,60	2,85	1,61	-
Bonds issued	9,80	10,66	-	-		10,56		
Promissory notes and deposit certificates issued	8,42	2,67	2,17	-	8,30	3,42	3,79	-
Other borrowed funds	6,90	-	1,79	-	6,90	-	1,88	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Interest rate risk management represents management of assets and liabilities of the Group to maximise profit from possible fluctuations in interest rates under conditions of compliance with stated limits.

Group's interest rate risk management is performed centrally on continuing basis by the Management Board of the Bank, the Asset and Liability Management Committee and the Treasury Department.

The Group uses the following interest rate risk management tools:

- approval of structure of limits and restrictions for interest rate risk
- approval of the asset and liability structure
- management of interest rates and their limits for different financial instruments
- implementation and facilitation of new banking products
- approval of methods (procedures) for interest rate risk evaluation
- financial instrument transactions
- constant interest rate risk monitoring.

Management of the Group uses a GAP report as the major analytical form for interest rate risk. The analysis is carried out by major currencies distributed according to the revaluation intervals.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Report additionally takes into account items of working capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate revaluation interval of four years. In 2016 for the purposes of interest rate risk in currency evaluation the Bank started to utilise GAP reports with a breakdown by interest rate components, i.e. riskless line of interest rates in currency and bonuses for geographical risk of the Russian Federation.

The main criteria for interest rate risk evaluation is sensitivity index of the Bank’s capital to fluctuation of general level of interest rates under conditions of the most worst-case scenario for all components of interest rates determined in accordance with Interest rate evaluation technics (Capital at interest rate risk).

The Group maintains the ratio of total capital used to cover the interest rate risk to the Bank’s capital at a level not more than 30%.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

An analysis of sensitivity of profit or loss and equity to changes in the interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015, is as follows.

In thousands of Russian Roubles	**2016**	**2015**
Russian Rouble		
1% parallel fall	588 170	800 825
1% parallel rise	(592 709)	(808 377)
USD riskless interest rate		
1% parallel fall	150 565	20 733
1% parallel rise	(156 611)	(21 681)
USD bonuses for geographical risk of the Russian Federation		
1% parallel fall	444 267	481 767
1% parallel rise	(450 313)	(482 715)
Euro riskless interest rate		
1% parallel fall	308 820	(26 257)
1% parallel rise	(450 313)	26 257
Euro bonuses for geographical risk of the Russian Federation		
1% parallel fall	384 549	65 519
1% parallel rise	(388 682)	(65 519)
Aggregated		
1% parallel fall	1 322 628	1 210 658
1% parallel rise	(1 339 346)	(1 219 159)

32 Risk Management, Corporate Governance and Internal Control (continued)

Apart from the indices mentioned above the Group calculates the potential effect of interest rate GAPs that is a change in the present value of assets and liabilities of the Bank in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

Commodity risk. The Group is exposed to open position risk with regard to commodity instruments due to movements in their quotations on commodity market.

The limits for items with breakdown by underlying assets are set based on liquidity and volatility of commodity market instruments evaluation.

Other price (equity) risk. The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations on equity market.

The limits for particular issuers are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments. In addition to particular limits there is a cumulative limit for the amount of open equity positions.

If the risk becomes material the mitigation arrangements are determined by the Management Board of the Bank.

Liquidity risk. Liquidity risk arises when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from customer accounts, overnight deposits, current accounts, term deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group’s customers. Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group’s activity, management may demand higher amounts of liquidity, if required.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests the funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicate that these customer accounts provide a long-term and stable source of funding.

The basis for managing short-term liquidity (less than three months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank.

Liquidity management is regulated by an internal regulation for the Bank approved by the Supervisory Board. Group’s management applies the following main instruments for liquidity management:

- Managing the volume and structure of the liquid assets portfolio. Management maintains a portfolio of liquid assets (including trading securities) that can be used for prompt and loss-free funding

- In certain cases management may impose restrictions on some transactions to regulate the structure of assets and liabilities of the Group. The limits are set when other instruments of liquidity management are insufficient in terms of extent and length of impact.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis. It is implemented based on statistical and chronological analysis of the balances of customer current accounts, forecasted customer deposits, movement of funds on accounts and analysis of the information on obligations and requirements of the Bank under term contracts in short-term periods. This analytical data serves as a basis for management of the Bank's liquidity position.

Short-term (for the period of up to three months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible client funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over three months) liquidity monitoring is based on analysis of the Group's liquidity gaps. The Group evaluates the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses estimated disposal period without incurring losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Results of liabilities attribution by maturity and liquidity index calculation are performed in general report for all currencies and reports for each currency with total amount of liabilities exceeded 5% of total balance. Bank's regulations state minimum value of liquidity indexes.

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBRF on maintaining sufficient liquidity ratios (instant liquidity ratio - N2, current liquidity ratio - N3, long-term liquidity ratio - N4).

According to the daily calculations, as at 31 December 2016 and 31 December 2015 the Bank complied with the liquidity ratios established by the CBRF.

Below is the IFRS liquidity position of the Group at 31 December 2016. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments measured at a fair value which changes are reflected in profit or loss for the period and investment securities available-for-sale, which are shown in the category "Demand and less than 1 month".

32 Risk Management, Corporate Governance and Internal Control (continued)

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	33 881 204	-	-	-	-	33 881 204
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 762 109	850 960	429 984	177 731	19	3 220 803
Trading securities	17 126 047	-	-	-	-	17 126 047
Securities pledged under sale and repurchase agreements and loaned	61 800 246	-	-	-	-	61 800 246
Reverse and sale repurchase agreements	39 333 604	19 123 279	-	42 569	-	58 499 452
Derivative financial assets	1 875 171	3 653 475	9 297	32	-	5 537 975
Due from banks	1 652 715	28 613 834	3 105 209	-	-	33 371 758
Loans and advances to customers						
- loans and advances to legal entities	14 795 549	28 729 630	43 296 567	156 390 283	13 390 191	256 602 220
- loans and advances to individuals	423 798	664 072	2 384 238	16 285 632	38 351 105	58 108 845
Investment securities available-for-sale	26 477 508	-	-	-	-	26 477 508
Investment property	-	-	-	-	5 726 225	5 726 225
Premises, equipment and intangible assets	-	-	-	-	14 304 980	14 304 980
Other assets	2 019 526	938 373	786 430	799 101	9 842	4 553 272
Long-term assets held-for-sale	-	-	1 076 985	-	-	1 076 985
Total assets	**201 147 477**	**82 573 623**	**51 088 710**	**173 695 348**	**71 782 362**	**580 287 520**
Liabilities						
Due to banks	125 370 901	122 584	55 264	4 159 109	2 013 909	131 721 767
Customer accounts	191 398 389	92 487 031	46 733 035	19 316 797	9 616	349 944 868
Financial liabilities at fair value	4 222 611	553	-	-	-	4 223 164
Derivative financial liabilities	2 278 179	616 954	33 886	733	-	2 929 752
Bonds issued	-	-	3 752 304	11 126 111	1 004 300	15 882 715
Promissory notes and deposit certificates issued	949 520	2 499 825	3 185 513	1 245 083	2 343	7 882 284
Other borrowed funds	-	311 906	313 358	1 878 879	-	2 504 143
Other liabilities	1 314 138	2 329 235	51 517	10 256	624 715	4 329 561
Total liabilities	**325 533 738**	**98 368 088**	**54 124 877**	**37 736 968**	**3 654 883**	**519 418 554**
Net liquidity gap	**(124 386 261)**	**(15 794 465)**	**(3 036 167)**	**135 958 380**	**68 127 479**	**60 868 966**
Cumulative liquidity gap as at 31 December 2016	**(124 386 261)**	**(140 180 726)**	**(143 216 893)**	**(7 258 513)**	**60 868 966**	

32 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position of the Group at 31 December 2015.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years or no maturity**	**Total**
Assets						
Cash and cash equivalents	36 558 917	-	-	-	-	36 558 917
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 133 776	740 262	355 714	158 338	48	2 388 138
Trading securities	13 193 472	-	-	-	-	13 193 472
Securities pledged under sale and repurchase agreements and loaned	70 314 051	-	-	-	-	70 314 051
Reverse sale and repurchase agreements	15 220 590	-	-	-	-	15 220 590
Derivative financial assets	115 757	243 168	-	4 615 870	-	4 974 795
Due from banks	27 004 752	3 756 010	833 595	3 528 227	-	35 122 584
Loans and advances to customers						
- loans and advances to legal entities	5 870 728	65 739 063	56 557 070	136 573 909	18 816 183	283 556 953
- loans and advances to individuals	417 957	1 011 134	2 784 209	15 956 430	31 575 417	51 745 147
Investment securities available-for-sale	27 849 192	-	-	-	-	27 849 192
Investment property	-	-	-	-	3 162 532	3 162 532
Premises, equipment and intangible assets	-	-	-	-	14 476 946	14 476 946
Other assets	591 456	1 352 480	96 718	913 431	24 315	2 978 400
Long-term assets held-for-sale	-	-	992 859	-	-	992 859
Total assets	**198 270 648**	**72 842 117**	**61 620 165**	**161 746 205**	**68 055 441**	**562 534 576**
Liabilities						
Due to banks	112 305 353	15 824 733	42 963	6 383 657	1 276 374	135 340 796
Customer accounts	154 360 275	101 047 739	48 555 901	21 613 514	6 521	325 583 950
Financial liabilities recognised at fair value	492 284	377 978	-	-	-	870 262
Derivative financial liabilities	241 817	252 867	3 977	-	-	498 661
Bonds issued	-	-	-	19 200 016	-	19 200 016
Promissory notes and deposit certificates issued	3 096 733	4 512 401	7 410 385	2 420 253	1 374	17 441 146
Other borrowed funds	-	214 473	215 626	2 212 200	-	2 642 299
Other liabilities	491 983	741 618	9 488	118 905	2 811 968	4 173 962
Total liabilities	**270 874 139**	**122 593 831**	**56 238 340**	**51 948 545**	**4 096 237**	**505 751 092**
Net liquidity gap	**(72 603 491)**	**(49 751 714)**	**5 381 825**	**109 797 660**	**63 959 204**	**56 783 484**
Cumulative liquidity gap as at 31 December 2015	**(72 603 491)**	**(122 355 205)**	**(116 973 380)**	**(7 175 720)**	**56 783 484**	

Group’s management believes that available undrawn credit lines of RR 108 178 000 thousand (2015: RR 133 549 000 thousand) in total and assessment of stability of customer accounts in unstable environment will fully cover the Group’s liquidity gap in the tables above.

32 Risk Management, Corporate Governance and Internal Control (continued)

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contract maturity dates. The amounts of such deposits by contractual maturity as at 31 December 2016 and 31 December 2015 is as follows:

In thousands of Russian Roubles	**2016**	**2015**
Demand and less than 1 month	20 149 536	21 999 108
From 1 to 6 months	64 292 328	68 203 808
From 6 to 12 months	40 229 847	36 440 955
From 1 to 5 years	17 083 163	19 635 037
More than 5 years	935	995
Total term deposits of individuals	**141 755 809**	**146 279 903**

The main differences between liquidity tables prepared under IFRS by contractual maturity and presented above and the tables prepared by the Group for management purposes are as follows:

1. The total assets differ because the impairment allowance on loans and advances to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for IFRS purposes loans and advances to customers are reduced by the allowance;
2. The Bank applies internal methods to determine the maturity of deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for management purposes;
3. The Bank also applies internal methods to account for the trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of financial liabilities as at 31 December 2016 and 31 December 2015 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the consolidated statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

32 Risk Management, Corporate Governance and Internal Control (continued)

As at 31 December 2016:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Non-derivative financial liabilities						
Due to banks	125 600 329	127 336	61 760	4 312 060	2 500 727	132 602 212
Customer accounts	191 489 787	94 129 492	48 955 987	20 739 800	27 675	355 342 741
Financial liabilities at fair value	4 223 164	-	-	-	-	4 223 164
Bonds issued	173 490	803 248	4 647 450	14 401 912	1 085 804	21 111 904
Promissory notes and deposit certificates issued	1 049 107	2 520 288	3 264 571	1 293 976	3 421	8 131 363
Other borrowed funds	833	347 422	393 218	2 071 245	-	2 812 718
Other financial liabilities	759 612	-	-	-	-	759 612
Derivative financial instruments						
- inflow	(562 207 667)	-	-	-	-	(562 207 667)
- outflow	560 190 327	-	-	-	-	560 190 327
Total future undiscounted cash flows	**321 278 982**	**97 927 786**	**57 322 986**	**42 818 993**	**3 617 627**	**522 966 374**

As at 31 December 2015:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Non-derivative financial liabilities						
Due to banks	112 211 360	15 937 433	152 942	7 028 252	1 276 374	136 606 361
Customer accounts	154 547 005	103 501 447	50 639 212	23 527 694	9 279	332 224 637
Financial liabilities at fair value	870 262	-	-	-	-	870 262
Bonds issued	208 458	733 525	941 985	22 272 863	-	24 156 831
Promissory notes and deposit certificates issued	3 279 689	4 573 626	7 578 265	2 651 479	2 152	18 085 211
Other borrowed funds	833	248 409	294 949	2 508 020	-	3 052 211
Other financial liabilities	214 575	-	-	-	-	214 575
Derivative financial instruments						
- inflow	(92 211 851)	-	-	-	-	(92 211 851)
- outflow	80 413 596	-	-	-	-	80 413 596
Total future undiscounted cash flows	**259 533 927**	**124 994 440**	**59 607 353**	**57 988 308**	**1 287 805**	**503 411 833**

Credit related commitments are disclosed in note 34.

32 Risk Management, Corporate Governance and Internal Control (continued)

Operational risk. The Group manages operational risk by mitigating it to the acceptable level through undertaking certain measures and actions to prevent events and conditions which may originate the risk, and by insuring those types of operational risks which cannot be managed.

To prevent or liquidate in a timely manner the consequences of a potential interruption of the daily activity of the Group or its divisions in case of non-standard and emergency situations, internal documents have been developed that define a system of actions aimed to ensure the Group's business continuity and/or recovery in the event of such non-standard and emergency situations. To implement these actions, Bank’s reserve platforms with emergency workstations for critical business processes have been organised. Additionally, instructions have been developed for employees of the Group which define actions to be taken in different emergency situations.

Legal risk. The Group manages legal risk using developed steps aimed at identifying, resolving and preventing risk and therefore negative economic consequences for the Group. The Group uses standard legal documents for the majority of its transactions. In all other cases all non-standard documents have to be agreed before being used as part of relevant transactions. The Group also takes steps aimed at reducing this risk to an acceptable level.

33 Management of Capital

The objectives when managing Group’s capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), to comply with the capital requirements and capital adequacy ratio in accordance with financial covenants set in borrowing agreements signed by the Group.

(i) Under the current capital requirements set by the CBRF banks have to maintain a ratio of own funds (capital) to risk weighted assets (N.1.0) of at least 8%, base capital adequacy ratio (N.1.1) of at least 4.5%, core capital adequacy ratio (N.1.2) of at least 6.0%. Banks have to maintain level additional to capital requirements set by the CBRF. In 2016 the Bank had to comply with an additional level of 0.625% to all capital adequacy ratios as well as the countercyclical buffer calculated as the weighted average value of national countercyclical buffers set in all countries (including the Russian Federation) residents of which entered into transactions with the Bank exposed to credit or market risk. As at 31 December 2016 countercyclical buffer was 0.0%.

Base capital, core capital and own funds (capital) and capital adequacy ratios based on reports prepared by the Bank under Russian statutory accounting standards are as follows:

In thousands of Russian Roubles	**2016**	**2015**
Total capital	68 117 402	72 009 053
Base capital	42 029 839	40 665 043
Core capital	42 029 839	40 665 043
Ratio of own funds to risk weighted assets (N.1.0)	14.33%	15.48%
Base capital adequacy (N.1.1)	8.91%	8.82%
Core capital adequacy (N.1.2)	8.91%	8.82%

33 Management of Capital (continued)

The capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting its components.

Based on the calculations performed on a daily basis by the Accounting Department, management believes that as at 31 December 2016 and 31 December 2015 the capital adequacy ratio was not below the minimum requirement.

In September 2015 the Group attracted a subordinated loan from the "Deposit Insurance Agency" State Corporation in the form of federal loan bonds in the total nominal amount of RR 14 594 500 thousand. As at 31 December 2016, the fair value of these bonds is RR 16 588 599 thousand (2015: RR 15 446 877 thousand). The interest rate is the coupon rate on federal loan bonds plus 1% p.a. The loan maturity is from 2025 to 2034, depending on the terms of bond issue.

The Group is required to meet certain covenants attached to the subordinated loan from the "Deposit Insurance Agency" State Corporation. As at 31 December 2016 and 31 December 2015, the Group fully meets these covenants, with the exception of the level-of-the-payroll-of-other-employees indicator as at 31 December 2016. In the consolidated statement of comprehensive income for 2016 a reserve for potential penalty is RR 145 936 thousand.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Bank's Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved collegially by the following management bodies in order of the established priority: the Asset and Liability Management Committee, the Management Board of the Bank, the Supervisory Board of the Bank.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan to increase assets. In some cases management uses administrative measures to influence the structure of assets and liabilities through interest rate policy, and in exceptional cases, through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

33 Management of Capital (continued)

Below is the capital and capital adequacy ratio of the Bank calculated in accordance with Basel I:

In thousands of Russian Roubles	2016	2015
Capital	**81 625 399**	**81 079 570**
Tier 1	**55 255 332**	**51 366 702**
Paid-in share capital	3 721 734	3 721 734
Reserves and profit	51 533 598	47 644 968
Including:		
- Share premium	21 393 878	21 393 878
- Retained earnings	30 139 720	26 251 090
Tier 2	**26 370 067**	**29 712 868**
Revaluation reserve for premises	3 820 496	3 820 496
Revaluation reserve for investment securities available-for-sale	1 793 138	1 596 286
Subordinated loans	20 756 433	24 296 086
Risk weighted assets	**502 372 930**	**520 097 799**
Risk weighted banking assets	416 867 183	456 087 531
Risk weighted trading assets	52 505 588	29 547 013
Risk weighted unrecognised exposures	33 000 159	34 463 255
Total capital adequacy ratio	**16,25%**	**15,59%**
Tier 1 capital adequacy ratio	**11,00%**	**9,88%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors as at 31 December 2016 and 31 December 2015.

34 Contingencies, Commitments and Derivative Financial Instruments

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

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions of the Group will be sustained. Accordingly, at 31 December 2016 and 31 December 2015 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. At 31 December 2016, the Group had no contractual capital expenditure commitments in respect of reconstruction and purchase of premises (2015: none).

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

In thousands of Russian Roubles	**2016**	**2015**
Less than 1 year	199 087	126 222
1 to 5 years	486 036	330 915
Total operating lease commitments	**685 123**	**457 137**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender’s consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, the share of overdue balances in the credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the expenditure patterns;

Reporting requirements, obliging the Group to provide its audited financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

As at 31 December 2016 and 31 December 2015, management believes that the Group was in compliance with all covenants.

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

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

Commitments to extend credits represent unused portions of authorisations to extend credits in the form of loans. With respect to credit risk on commitments to extend credits, the Group is potentially exposed to credit risk as at the year end in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	Note	2016	2015
Guarantees issued		33 397 221	34 536 148
Revocable undrawn credit lines		32 610 192	22 066 781
Import letters of credit		1 333 341	68 573
Allowance for impairment	22	(696 204)	(134 901)
Total credit related commitments		**66 644 550**	**56 536 601**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being disbursed. The maturities of credit related commitments depend on types of guarantees and undrawn credit lines and are mainly classified into category of "On demand and less than 1 month".

The following table provides information on collateral securing guarantees issued, net of allowance for credit losses, by types of collateral presented on the basis of excluding overcollateralisation at 31 December 2016 and 31 December 2015:

In thousands of Russian Roubles	2016	2015
Promissory notes	2 047 586	1 976 200
Real estate	7 028 519	4 865 735
Deposits	2 145 390	2 414 553
Movable property	605 293	865 502
Surety	4 043 682	6 981 382
Other collateral	249 121	1 783 050
No collateral	16 586 431	15 537 327
Total	**32 706 022**	**34 423 749**

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not the Group's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover is provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2016 Nominal value	2015 Nominal value
Corporate shares held in custody of:		
- National Depository Centre	565 663	356 042
- other registrars and depositories	940 547	550 708
- registers of share issuers	-	87 395
Municipal bonds held in custody of:		
- St. Petersburg Settlement and Depository Centre	58	58
- National Depository Centre	1 293	1 293
Corporate bonds held in custody of:		
- National Depository Centre	585 148	637 419
- Other registrars and depositories	139	139
Eurobonds in USD held in custody of:		
- National Depository Centre	9 945	-
Eurobonds in Euro held in custody of:		
- National Depository Centre	200	-

Derivative financial instruments. Currency derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The table below shows fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards and futures contracts, interest rate forward and futures contracts entered into by the Group. The table reflects contracts with settlement dates after the relevant reporting period. The amounts under these contracts are shown before the netting of any counterparty positions (and payments).

	2016		2015	
In thousands of Russian Roubles	Asset forwards	Liability forwards	Asset forwards	Liability forwards
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	38 243 025	243 786 661	3 924 300	2 879 973
- USD payable on settlement (-)	(212 108 312)	(22 030 571)	(4 437 728)	(30 954 527)
- Euro receivable on settlement (+)	31 133 108	5 656 871	2 848 229	5 822 996
- Euro payable on settlement (-)	(11 375 825)	(61 225 379)	(244 014)	(234 826)
- RR receivable on settlement (+)	200 921 450	26 838 103	2 081 707	30 527 256
- RR payable on settlement (-)	(41 099 941)	(198 507 589)	(3 824 103)	(7 002 847)
- Other currency receivable on settlement (+)	16 964	3 659 720	6 289	1 166
- Other currency payable on settlement (-)	(3 620 417)	(945 045)	-	(1 525 917)
Total on foreign exchange forwards	**2 110 052**	**(2 767 229)**	**354 680**	**(486 726)**

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

In thousands of Russian Roubles	**2016** Asset futures	**2016** Liability futures	**2015** Asset futures	**2015** Liability futures
Foreign exchange futures: fair values, at the reporting date, of				
- USD receivable on settlement (+)	6 391 200	49 422 554	21 510 368	1 193 096
- USD payable on settlement (-)	(67 979 915)	(19 057 368)	(13 900 853)	(3 078 863)
- Euro receivable on settlement (+)	9 274 957	15 972 927	-	-
- Euro payable on settlement (-)	(4 088 186)	(1 277 677)	(5 210 284)	(163 857)
- RR receivable on settlement (+)	72 432 604	20 324 962	19 111 137	3 242 720
- RR payable on settlement (-)	(15 434 297)	(65 725 930)	(21 514 860)	(1 193 096)
- Other currency receivable on settlement (+)	-	194 089	4 492	-
- Other currency payable on settlement (-)	(173 731)	(1 447)	-	-
Total on foreign exchange futures	**422 632**	**(147 890)**	**-**	**-**

In thousands of Russian Roubles	**2016** Asset forwards	**2016** Liability forwards	**2015** Asset forwards	**2015** Liability forwards
Interest rate forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	7 592 552	-	9 113 822	-
- RR receivable on settlement (+)	46 425	176 292	120 924	375 071
- RR payable on settlement (-)	(4 640 397)	(185 916)	(4 617 539)	(383 689)
Total on interest rate forwards	**2 998 580**	**(9 624)**	**4 617 207**	**(8 618)**

In thousands of Russian Roubles	**2016** Asset options	**2016** Liability options	**2015** Asset options	**2015** Liability options
Unlisted options: fair values, at the reporting date, of				
- RR transactions	6 711	(15)	2 908	(142)
- USD transactions	-	(4 968)	-	(3 140)
- Euro transactions	-	(26)	-	(35)
Total on unlisted options	**6 711**	**(5 009)**	**2 908**	**(3 317)**
Net fair value of derivative financial instruments	**5 537 975**	**(2 929 752)**	**4 974 795**	**(498 661)**

35 Fair Value of Financial Instruments

Methods and assumptions used in calculation of the fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. The best evidence of fair value is price quotations in an active market.

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

The fair value of instruments with floating interest rates usually equals to their carrying value. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for instruments with similar credit risk and maturity date. For effective interest rates by currency for major debt financial instruments refer to section “Interest Rate Risk” in note 32.

The Group’s accounting policy on recognition of financial instruments carried at fair value is disclosed in note 3.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

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

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

Management uses professional judgment for allocation of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as Level 3.

Due to banks and customers for refund of securities under sale and repurchase agreements received and sold by the Group are recognised at fair value.

35 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2016:

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	12 310 951	646 139	-
- Corporate Eurobonds	3 341 132	-	-
- Municipal bonds	496 343	-	-
- Corporate shares	290 136	-	-
- Federal loan bonds	41 346	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate Eurobonds	50 607 042	-	-
- Corporate bonds	10 646 923	-	-
- Federal loan bonds	351 669	-	-
- Corporate shares	194 612	-	-
Investment securities available-for-sale			
- Corporate bonds	19 670 342	3 502	-
- Corporate Eurobonds	3 269 715	-	-
- Municipal bonds	2 141 496	-	-
- Federal loan bonds	984 945	-	-
- Equity securities	292 075	-	-
Derivative financial assets	-	5 537 975	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**104 638 727**	**6 187 616**	**-**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	4 223 164	-	-
Derivative financial liabilities	-	2 929 752	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**4 223 164**	**2 929 752**	**-**

35 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2015:

In thousands of Russian Roubles	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	10 368 129	103 625	-
- Corporate Eurobonds	1 982 614	-	-
- Federal loan bonds	568 163	-	-
- Corporate shares	127 348	-	-
- Municipal bonds	43 593	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate Eurobonds	50 734 205	-	-
- Corporate bonds	16 702 808	-	-
- Federal loan bonds	2 723 775	-	-
- Municipal bonds	99 089	-	-
- Eurobonds of the Russian Federation	39 154	-	-
- Corporate shares	15 020	-	-
Investment securities available-for-sale			
- Corporate bonds	14 117 755	158 481	-
- Federal loan bonds	6 415 985	-	-
- Corporate Eurobonds	4 087 054	-	-
- Municipal bonds	610 811	-	-
- Equity securities	347 104	-	-
- Eurobonds of the Russian Federation	107 673	-	-
Derivative financial assets	-	4 974 795	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**109 090 280**	**5 236 901**	**-**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	870 262	-	
Derivative financial liabilities	-	498 661	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**870 262**	**498 661**	**-**

35 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial assets carried at amortised cost as at 31 December 2016 and 31 December 2015:

	2016		2015	
In thousands of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Loans and advances to customers				
Loans to legal entities				
- loans to finance working capital	167 094 798	171 417 437	188 099 907	189 374 014
- investment loans	81 835 606	84 742 015	79 873 427	80 040 279
- loans to entities financed by government	7 671 816	7 983 925	15 583 619	15 805 852
Loans to individuals				
- mortgage loans	41 997 374	39 226 616	34 779 249	31 501 971
- car loans	1 660 426	1 551 668	2 583 412	2 339 693
- consumer loans to VIP clients	5 093 044	4 550 980	4 417 371	4 864 158
- other consumer loans	9 358 001	10 610 455	9 965 115	11 234 580
TOTAL	**314 711 065**	**320 083 096**	**335 302 100**	**335 160 547**

The following table provides fair values of financial liabilities carried at amortised cost as at 31 December 2016 and 31 December 2015:

	2016		2015	
In thousands of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Customer accounts				
State and public organisations				
- Current/settlement accounts	8 372	8 372	119 064	119 064
- Term deposits			-	-
Other legal entities	58 527 163	58 527 163	57 858 301	57 858 301
- Current/settlement accounts	87 481 283	87 529 303	79 487 386	78 534 191
- Term deposits	16 508 702	16 508 702	51 791	51 791
- Reverse sale and repurchase agreements				
Individuals	45 663 539	45 663 539	41 787 505	41 787 505
- Current accounts/demand deposits	141 755 806	144 778 449	146 279 903	143 269 046
- Term deposits				
Bonds issued				
- Subordinated Eurobonds	14 878 415	14 990 356	19 200 016	19 097 407
- Mortgage-secured bonds issued by the mortgage agent	1 004 300	998 300	-	-
Promissory notes and deposit certificates issued				
- Promissory notes	7 882 282	8 040 618	17 441 144	17 491 388
- Deposit certificates	2	2	2	2
Other borrowed funds				
- Subordinated loans	1 565 972	1 498 958	1 565 459	1 476 318
- AKA AFK	938 171	934 308	1 076 840	1 027 424
TOTAL	**376 214 010**	**375 254 906**	**364 867 411**	**360 712 437**

35 Fair Value of Financial Instruments (continued)

Trading securities, securities pledged under sale and repurchase agreements and loaned, investment securities available-for-sale, derivative financial instruments are recognised in consolidated financial statements at fair value.

According to the Group estimates, fair values of financial assets and liabilities, except for those disclosed in the tables above, do not differ significantly from their carrying values.

Fair value hierarchy of financial assets and liabilities mentioned in table above is as follows: bonds issued – Level 1, promissory notes and deposit certificates issued – Level 2, customer accounts - Level 2, other borrowed funds – Level 3, loans and advances to customers – Level 3.

Loans and receivables carried at amortised cost. The fair value of instruments with floating interest rates usually equals to their carrying value. If market situation significantly changes the interest rates on loans and advances to customers and loans to banks with fixed interest rate may be revised. Interest rates on loans and advances to customers issued just before the reporting date do not significantly differ from current interest rates on new instruments with similar credit risk and maturity date. If interest rates on earlier issued loans, according to the Group estimates, significantly differ from current interest rates for similar instruments as at the reporting date, the Group determines estimated fair value for these loans. The estimate is based on discounted cash flows using current interest rates determined based on available market information for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and counterparty.

The following table provides analysis of interest rates on loans and advances to customers as at 31 December 2016 and 31 December 2015:

	2016	2015
Loans and advances to customers:		
Loans and advances to legal entities	3.65% - 20.09% p.a.	3.74% - 27.53% p.a.
Loans and advances to individuals	2.79% - 21.95% p.a.	4.47% - 24.90% p.a.

Financial liabilities carried at amortised cost. The estimated fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates determined based on available market information for new instruments with similar credit risk and maturity date. Discounting interest rates depend on currency, maturity date and as at 31 December 2016 ranged from 0.03% p.a. to 10.0% p.a. (2015: from 0.08% to 12.00%).

According to the Group estimates, fair values of other financial assets, including trade receivables, taking into account their short-term nature, do not differ significantly from their amortised cost.

36 Related Party Transactions

For the purposes of these consolidated financial statements, 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 and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form. The family of Mr. A.V. Savelyev, through its ownership of the Bank's shares and the option to purchase interest in the companies currently controlled by the members of the Bank's management (see note 1), is the majority ultimate beneficiary of the Bank.

Transactions are entered into in the normal course of business with shareholders, Group's management and other related parties.

As at 31 December 2016, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rates: 2.00% – 27.00% p.a.)	44	88 884	116 649
Impairment allowance for loans and advances to customers	-	(216)	(23 330)
Customer accounts (contractual interest rates: 0.01% - 12.4% p.a.)	2 918 979	1 571 052	162 552

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year ended 31 December 2016 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	11	9 893	13 473
Interest expense	(148 159)	(91 402)	(21 299)
Recovery (charge) of provision for loan impairment	1	(111)	1 289
Fee and commission income	212	1 063	2 633

36 Related Party Transactions (continued)

Aggregate amounts lent to and repaid by related parties during 2016 are:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Amounts lent to related parties during the year	427	155 177	100
Amounts repaid by related parties during the year	628	122 506	29 883

As at 31 December 2015, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Loans and advances to customers (contractual interest rates: 4.75% - 27.00% p.a)	245	56 213	146 432
Impairment allowance for loans and advances to customers	(1)	(105)	(24 619)
Customer accounts (contractual interest rates: 0.01% - 18.80% p.a)	2 410 255	1 791 455	40 804
Issued promissory notes and certificates of deposits (contractual interest rates: 5.25% p.a)	-	-	167 395

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year 2015 are as follows:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Interest income	11	3 770	24 456
Interest expense	(108 984)	(86 227)	(61 251)
Recovery of provision for loan impairment	38	2 404	1 873
Fee and commission income	252	1 010	19 803

Aggregate amounts lent to and repaid by related parties during 2015 are:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Amounts lent to related parties during the year	4 485	115 095	9 917
Amounts repaid by related parties during the year	5 290	128 102	74 353

In 2016, total remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RR 486 175 thousand (2015: RR 525 238 thousand).

37 Consolidation of companies

The Group's consolidated financial statements include the following subsidiaries:

Name	Country of incorporation	Ownership, % 31 December 2016	Ownership, % 31 December 2015	Principal activities
LLC BSPB Trading	Russian Federation	100%	100%	Operations on financial market
LLC Nevskaya management company	Russian Federation	100%	-	Securities management

On the basis of Article 12 of Federal Law No. 325-FZ dated 21 November 2011 "On Organized Trading", LLC BSPB-Trading Systems changed its name to LLC BSPB Trading.

In 2016 the Group acquired LLC Nevskaya management company as a subsidiary for RR 156 000 thousand, fair value of identified net assets of the company as at the acquisition date does not significantly differ from the cost of acquisition.

The Bank uses BSPb Finance PLC, a structured entity, for issue of bonds on the international capital market (refer to note 19).

BSPb Finance PLC is the issuer of a structured debt – loan participation notes issued solely to finance loans to the Bank. Loan participation notes represent secured debt, where the issuer pledges all amounts received and/or receivable under loan agreements with the Bank. The Bank compensates the issuer all one-off and current expenses related to issuance and servicing of the loans.

"MA BSPB" LLC sponsored by the Group under its securitisation programme is run according to pre-determined criteria that are part of the initial structure of the company. Outside of the day-to-day servicing of the mortgage loans (which is carried out by the Group under a servicing contract), key decisions are required only when mortgage loans go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the "MA BSPB" LLC through provision of credit line, contractual obligation to sell default mortgage loans to the Bank and Bank's holding of debt securities issued by this company. As a result, the Group concluded that it controls the company and its financial statements have been included in consolidated financial statements as at 31 December 2016.

M. Mancinskis
First Deputy Chairman of the Management Boad,
Chief Executive Officer

N.G. Tomilina
Chief Accountant