THE GROUP OF CENTER-INVEST

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
31 December 2016

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint-stock company commercial Bank "Center-invest":

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Joint-stock company commercial Bank "Center-invest" (the "Bank") and its subsidiary (together - 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").

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 section "Auditor's responsibilities for the audit of the consolidated financial statements" of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Materiality

- Overall group materiality was RR 129 million, which represented approximately 1% of total revenues (interest and fee and commission income) for the year ended 31 December 2016.

Audit scope

- We conducted audit work at the Bank. Total revenues of the Bank (excluding intercompany turnovers) represented approximately 99.9% of total revenues of the Group for the year ended 31 December 2016. We applied our professional judgement to the scope of audit procedures for the Bank's subsidiary.

Key audit matters

- Provision for impairment of loans and advances to customers

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the Group's consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RR 129 million.
How we determined it	1% of total revenues (interest and fee and commission income) for the year ended 31 December 2016
Rationale for the materiality benchmark applied	We chose total revenues as generally acceptable benchmark to mitigate the volatile nature of profit before tax during last years. We chose 1%, which is within the range of acceptable quantitative materiality thresholds commonly used in practice.

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.

Key audit matter	How our audit addressed the Key audit matter
Provision for impairment of loans and advances to customers We focused on this matter due to significance of loans and advances to customers and significance of judgements and estimates required for calculation of the related provision. The provision represents management's best estimate of losses incurred within the loans and advances to customers as at the balance sheet date. Collective provisions are calculated on a collective basis for loans and advances of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loan portfolios. The design of and inputs to the models are subject to management judgement. Provisions for significant loans and advances without individual impairment indicators are calculated collectively, as described above. Specific provisions are calculated on an individual basis for significant loans and advances. For such provisions, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to the loan. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates, and Judgements in Applying Accounting Policies" and Note 9 "Loans and Advances to Customers" included in the consolidated financial statements provide detailed information on the provision for impairment of loans and advances to customers.	We assessed the key methodologies for calculation of the provision for consistency with the requirements of IFRS. We tested (on a sample basis) loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) the basis and operation of collective provisioning models and the data and assumptions used. Our work included comparison of the principal assumptions, that is, probability of default and loss given default, with our own knowledge and actual experience of the Group, testing of the models through re-performance by recalculating of probability of default and loss given default on a sample basis, and analytical procedures (backtesting, benchmarking). We tested (on a sample basis) loans and advances for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, examined discounted cash flows calculations performed by management, challenged the assumptions and compared estimates to external evidence where available. In the case of some impairment provisions, we formed a different view from that of management. But in our view the difference was within a reasonable range of outcomes in the context of the overall amount of loans and advances to customers and the uncertainties disclosed in the consolidated financial statements.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We conducted audit work at the Bank. In addition, we applied our professional judgement to the scope of audit procedures for the Bank's subsidiary and performed specified audit procedures for the subsidiary's financial statement line items, which likely bear significant risks of material misstatement of consolidated financial statements of the Group. We performed the procedures to determine that we obtained sufficient audit evidence in relation to the Bank's subsidiary.

We also performed audit procedures in relation to preparation of the consolidated financial statements of the Group.

Other information

Management is responsible for other information. The other information comprises annual report and issuer's report, which are expected to be made available to us after this date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are required to report that fact. As of the date of the auditor's report, the other information was not available to us, and we do not provide any report thereon.

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 ability of the Group 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 consolidated financial reporting process of the Group.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 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 internal control of the Group.
- 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 ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

The management of the Bank is responsible for compliance of the Group with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the consolidated financial statements of the Group for the year 2016:

- compliance of the Group as at 1 January 2017 with the statutory ratios set by the Bank of Russia;

- compliance of internal control and organisation of risk management systems of the Group with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Group with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Group with the statutory ratios set by the Bank of Russia:

   as at 1 January 2017 the Group's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Group other than the procedures we considered necessary to express our opinion on whether or not the 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 IFRS.

2) as related to compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems:

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2017 subdivisions of the Bank for managing significant risks of the Group were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documents of the Bank effective as at 1 January 2017 which set out the methodologies to identify and manage significant credit, market, interest rate, liquidity risks, the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 1 January 2017 the Bank had in place a reporting system for significant credit, market, interest rate, liquidity risks and for equity (capital) of the Group;

   d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2016 as related to management of credit, market, interest rate, liquidity risks complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Group as well as recommendations on their improvement;

   e) as at 1 January 2017 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Group with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Group and their consistent application in 2016, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Group solely to examine compliance of internal control and risk management systems of the Group with the Bank of Russia's requirements for such systems.

The certified auditor responsible for the audit resulting in this independent auditor's report is Olga Kucherova.

AO PricewaterhouseCoopers Audit

15 March 2017

Moscow, Russian Federation

O. Kucherova, certified auditor (license number No. 01-000397), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint-stock company commercial Bank "Center-invest".

Certificate of inclusion in the Unified State Register of Legal Entities issued on 26 August 2002 under registration No. 61002690018.

62 Sokolova Street, Rostov-on-Don, Russian Federation, 344000.

Independent auditor:
AO PricewaterhouseCoopers Audit.

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No. 1027700148431.

Member of Self-Regulated Organization of Auditors «Russian Union of auditors» (Association).

ORNZ 11603050547 in the register of auditors and audit organizations.

(in thousands of Russian Roubles)	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	9 629 681	12 186 777
Mandatory cash balances with the Central Bank of the Russian Federation		611 606	411 386
Due from other banks	8	6 014 533	416 240
Loans and advances to customers	9	73 380 554	72 310 896
Finance lease receivables		266 272	361 190
Investment in associate	10	315 409	323 144
Investment properties	13	2 609 073	126 822
Intangible assets	11	310 878	252 756
Premises and equipment	12	2 459 566	2 270 541
Other financial assets	14	560 293	678 051
Other assets	15	417 824	234 889
Deferred income tax asset	26	-	68 307
TOTAL ASSETS		**96 575 689**	**89 640 999**
LIABILITIES			
Due to other banks	16	295 407	630 001
Customer accounts	17	80 433 365	65 039 828
Debt securities in issue	18	427 032	3 171 560
Borrowings from international financial institutions	19	182 116	6 079 705
Other financial liabilities		90 303	93 503
Other liabilities	21	492 674	330 031
Subordinated debt	20	3 077 640	3 692 976
Deferred income tax liability	26	65 919	-
TOTAL LIABILITIES		**85 064 456**	**79 037 604**
EQUITY			
Share capital	22	1 326 277	1 326 277
Share premium	22	2 078 860	2 078 860
Revaluation reserve for land and premises		1 353 140	1 192 811
Retained earnings		6 752 956	6 005 447
TOTAL EQUITY		**11 511 233**	**10 603 395**
TOTAL LIABILITIES AND EQUITY		**96 575 689**	**89 640 999**

15 March 2017

Публичное акционерное общество коммерческий банк "Центр-инвест" * Рег. №2225 * г. Ростов-на-Дону

S. Yu. Smirnov
Chairman of the Executive Board

T.I. Ivanova
Chief Accountant

The notes set out on pages 5 to 57 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2016	2015
Interest income	23	11 665 819	11 089 497
Interest expense	23	(6 544 416)	(7 661 920)
Contributions to the state deposit insurance scheme		(782 734)	(179 563)
Net interest income		**4 338 669**	**3 248 014**
Provision for impairment of loans and advances to customers and finance lease receivables	9	(1 480 661)	(1 313 070)
Net interest income after impairment provisions		**2 858 008**	**1 934 944**
Fee and commission income	24	1 248 400	1 192 570
Fee and commission expense	24	(401 228)	(364 039)
Gains less losses from trading securities		-	43 168
Gains less losses from trading in foreign currencies		81 221	117 629
Foreign exchange translation gains less losses		(13 059)	459 976
Losses less gains from spot currency transactions and other conversion operations on the interbank market		(15 383)	(510 026)
Other provisions and expenses	14,15,21	(107 045)	(39 795)
Other operating income		62 628	54 280
Administrative and other operating expenses	25	(2 417 681)	(2 174 975)
Share of result of associate	10	(7 735)	(10 743)
Profit before tax		**1 288 126**	**702 989**
Income tax expense	26	(284 155)	(168 157)
Profit for the year		**1 003 971**	**534 832**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of land and premises of the Group	12	250 190	-
Revaluation of premises and equipment of associate	10	-	1 685
Income tax recorded directly in other comprehensive income	26	(50 038)	(528)
Other comprehensive income for the year		**200 152**	**1 157**
Total comprehensive income for the year		**1 204 123**	**535 989**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for land and premises	Retained earnings	Total equity
Balance at 1 January 2015		**1 258 709**	**1 646 428**	**1 229 040**	**5 451 300**	**9 585 477**
Profit		-	-	-	534 832	534 832
Other comprehensive income		-	-	1 685	(528)	1 157
Total comprehensive income for the year		**-**	**-**	**1 685**	**534 304**	**535 989**
Issue of ordinary shares	22	67 568	432 432	-	-	500 000
Dividends declared:						
- preference shares	27	-	-	-	(18 099)	(18 099)
Other movements	27	-	-	-	28	28
Transfer of revaluation surplus on land and premises to retained earnings		-	-	(37 914)	37 914	-
Balance at 31 December 2015		**1 326 277**	**2 078 860**	**1 192 811**	**6 005 447**	**10 603 395**
Profit		-	-	-	1 003 971	1 003 971
Other comprehensive income		-	-	200 152	-	200 152
Total comprehensive income for the year		**-**	**-**	**200 152**	**1 003 971**	**1 204 123**
Dividends declared						
- ordinary shares	27	-	-	-	(278 215)	(278 215)
- preference shares	27	-	-	-	(18 099)	(18 099)
Other movements	27	-	-	-	29	29
Transfer of revaluation surplus on land and premises to retained earnings		-	-	(39 823)	39 823	-
Balance at 31 December 2016		**1 326 277**	**2 078 860**	**1 353 140**	**6 752 956**	**11 511 233**

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Interest received		11 272 558	10 633 457
Interest paid		(7 011 004)	(7 320 027)
Contributions to the state deposit insurance scheme		(510 413)	(170 115)
Fees and commissions received		1 268 644	1 186 107
Fees and commissions paid		(396 414)	(359 518)
Losses less gains from trading securities		-	(13 899)
Gains less losses from trading in foreign currencies		81 221	117 629
Losses less gains paid on spot currency transactions and other conversion operations on the interbank market		(15 357)	(535 872)
Receipts from assignment of rights of claim on loans and advances to customers	9	302 111	175 551
Repayment of debt written off		44 927	61 768
Other operating income received		32 405	38 142
Staff costs paid		(1 340 280)	(1 461 384)
Operating expenses paid		(782 940)	(592 678)
Income tax paid		(458 450)	(174 549)
Cash flows from operating activities before changes in operating assets and liabilities		**2 487 008**	**1 584 612**
Change in operating assets and liabilities			
Net change in mandatory cash balances with the Central Bank of the Russian Federation		(200 220)	132 214
Net change in trading securities		-	3 774 339
Net change in due from other banks		(5 597 167)	(415 081)
Net change in loans and advances to customers		(6 130 204)	(568 995)
Net change in finance lease receivables		90 848	153 575
Net change in other financial and other assets		259 602	(371 024)
Net change in due to other banks		(316 313)	(11 030 428)
Net change in customer accounts		16 522 677	14 566 850
Net change in promissory notes issued		(74 607)	151 629
Net change in other financial and other liabilities		(108 106)	(37 506)
Net cash from operating activities		**6 933 518**	**7 940 185**
Cash flows from investing activities			
Acquisition of premises and equipment	12	(86 001)	(73 876)
Proceeds from disposal of premises and equipment	12	137	2 206
Acquisition of intangible assets	11	(88 491)	(10 695)
Net cash used in investing activities		**(174 355)**	**(82 365)**
Cash flows from financing activities			
Issue of bonds	18	381 351	2 927 122
Repurchase and repayment of bonds	18	(3 046 710)	(8 885 204)
Repayment of borrowings from international financial institutions	19	(5 508 696)	(3 009 074)
Issue of ordinary shares	22	-	500 000
Dividends paid	27	(296 284)	(18 071)
Net cash used in financing activities		**(8 470 339)**	**(8 485 227)**
Effect of exchange rate changes on cash and cash equivalents		**(845 920)**	**1 359 282**
Net (decrease)/increase in cash and cash equivalents		**(2 557 096)**	**731 875**
Cash and cash equivalents at the beginning of the year		12 186 777	11 454 902
Cash and cash equivalents at the end of the year	7	**9 629 681**	**12 186 777**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Public Join-Stock Company Commercial Bank «Center-invest» (the "Bank") and its 100% subsidiary OOO Center-Leasing (the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group's principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments. Charges to the State Deposit Insurance Agency increased in 2016 compared to 2015 due to temporary application of additional rate of insurance charge according to the requirement of the Bank of Russia based on the result of the field inspection completed in January 2016. At the time of publishing these financial statements there are no grounds for applying an increased rate of charges to Deposit Insurance Agency in 2017.

At 31 December 2016 the Bank had three (2015: nine) branches in the Russian Federation. Additionally, the Bank has a representative office in Moscow and 119 (2015: 111) sub-branches in the Rostov and Volgograd Regions, Moscow, Nizhny Novgorod, Stavropol and Krasnodar Regions.

Registered address and place of business. The Bank's registered address is: 62 Sokolova Street, Rostov-on-Don, Russian Federation, 344000.

The average number of the Group's employees during 2016 was 1 446 (2015: 1 512).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Operating Environment of the Group

The Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 31). Low oil prices, continuing political tensions in the region, as well as international sanctions against certain Russian companies and individuals continued to have a negative impact on the Russian economy in 2016. The above resulted in the economic downturn in Russia, which is characterised by declining gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The Bank operates primarily in the South of Russia. Due to a diversified by industry economic structure the South of Russia demonstrates more dynamic and stable development trends than most other Russian regions. The growth rate demonstrated by the main industry of the region, agriculture, significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises. The management believes that these developments improve competitive advantages of the South of Russia.

2 Operating Environment of the Group (Continued)

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; Unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group’s policies.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group’s share of net assets of associates are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortised cost Description of these methods is presented below.

3 Significant Accounting Policies (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

3 Significant Accounting Policies (Continued)

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised when the entity becomes a party to an agreement on such 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 qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which 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 cash balances with the Central Bank of the Russian Federation. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group’s 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 financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

3 Significant Accounting Policies (Continued)

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

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

Loans and advances to customers. 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 the consolidated statement of profit or loss and other comprehensive income for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is 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 a significant financial difficulty as evidenced by the borrower’s financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is 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; or
- the borrower considers or is implementing financial restructuring, which may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);
- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

3 Significant Accounting Policies (Continued)

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.

Impairment of groups of financial assets that are collectively evaluated for impairment is defined based on statistics available to management on the amounts of overdue debt arising as a result of loss events and on success of recovery of overdue amounts. Past experience is adjusted if necessary on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset, in full or in part, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

Inventories. Inventories are measured at the lower of cost and possible net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion (development) and costs necessary to make the sale.

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and letters of credit to provide a loan 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. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

Investment properties. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

3 Significant Accounting Policies (Continued)

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises and equipment. Premises and equipment (except for land and buildings of the Group) 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, less accumulated depreciation and provision for impairment, where required.

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. If there is no market based evidence of fair value, fair value is estimated using an income method.

Costs of minor repairs and day-to-day maintenance are expensed when incurred.

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

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of profit and loss and other comprehensive income.

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 at the following annual rates:

Premises	2% – 2.5%
Other	20%

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

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

3 Significant Accounting Policies (Continued)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

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

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Inception of the lease. The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected future cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3 Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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

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

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative financial liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, 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 included in the consolidated statement of profit and loss and other comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit and loss and other comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the temporary difference will not reverse through dividends, or otherwise, in the foreseeable future.

3 Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

Share capital and share premium. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Group with account for IFRS profit are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

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

When loans and other debt instruments become doubtful for collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3 Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF, are recognised in the consolidated statement of profit or loss and other comprehensive income.

At 31 December 2016, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 60.6569 and EUR 1 = RR 63.8111 (2015: USD 1 = RR 72.8827 and EUR 1 = RR 79.6972).

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

Offsetting. Financial assets and liabilities are offset and the net amount is recognised 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 to settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 29 for analysis of financial instruments by expected maturity.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Management has made these changes to the classification of the prior year's values in order to present better information to the users of these consolidated financial statements. The effect of reclassifications of the information for the year 2015 for the purpose of presentation of consolidated financial statements is disclosed below:

In thousands of Russian Roubles	**2015 (before reclassification)**	**Reclassification**	**2015 (after reclassification)**
Consolidated Statement of Financial Position			
Other assets	361 711	(126 822)	234 889
Investment properties	-	126 822	126 822
Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Provision for impairment of loans and advances to customers and finance lease receivables	(1 374 838)	61 768	(1 313 070)
Repayment of debt written off	61 768	(61 768)	-

At 1 January 2015 there were no investment properties, and as a result of this reclassification the consolidated statement of financial position as at 1 January 2015 did not change.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities within the next financial year recognised in the consolidated financial statements. Estimates and judgements 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 certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements 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 loss on loans and advances to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income for the year, the Group makes professional judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans 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. 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.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 542 935 thousand (2015: RR 460 248 thousand) accordingly.

Revaluation of premises and investment properties. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Group and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties (Notes 12, 13). If the price per square meter of premises had increased by 10%, the carrying value of land and premises within premises and equipment recorded in the balance sheet would have increased by RR 235 019 thousand (2015: RR 216 652 thousand). If the price per square meter of premises had decreased by 10%, the carrying value of land and premises within premises and equipment recorded in the balance sheet would have decreased by RR 235 019 thousand (2015: RR 216 652 thousand). If the price per hectare of land had increased by 5%, the total value of investment properties in the balance sheet would have increased by RR 89 028 thousand (2015: RR 1 600 thousand). If the price per hectare of land had decreased by 5%, the total value of investment properties in the balance sheet would have decreased by RR 89 028 thousand (2015: RR 1 600 thousand).

Impairment of investment in associate. The Group management considered impairment of its investment in the associate (Note 10), a heat and power enterprise of heat systems Teploenergo (TEPTS), taking into consideration the valuation by an independent appraiser and discussions of the value with potential investors in this industry. As a result of the analysis, the Group management concluded that no impairment of carrying value of this investment was required. This conclusion largely depends on the correct assessment of 1) further growth of tariffs for services of TEPTS, 2) further solvency of clients of TEPTS, 3) discount rate applied to future cash flows, 4) well proven practice of TEPTS of including payment shortages into the future year tariffs. These parameters largely depend on the macroeconomic situation and the level of governmental regulation in the Russian Federation. Refer to Note 2. The Group set up a provision for non-performing receivables of TEPTS, which the management believes adequate.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 01 January 2017 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6 New Accounting Pronouncements (Continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

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

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

The following standards and interpretations, as soon as they come into effect, are not expected to affect significantly the Group's financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after the IASB approval date).

6 New Accounting Pronouncements (Continued)

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2016	2015
Cash on hand	3 755 481	4 224 184
Cash balances with the Central Bank of the Russian Federation (other than mandatory reserve deposits)	2 248 718	2 171 793
Correspondent accounts and overnight placements with banks		
- Russian Federation	853 815	1 293 158
- other countries	2 730 724	4 441 548
- settlement accounts with trading systems	40 943	56 094
Total cash and cash equivalents	**9 629 681**	**12 186 777**

At 31 December 2016 and 2015, cash and cash equivalents are neither past due nor impaired. There is no collateral on cash and cash equivalents.

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2016 and 2015, is as follows:

In thousands of Russian Roubles	Country	Rating Fitch/ S&P	2016	2015
Bank 1	Russia	BBB-	516 391	661 909
Bank 2	Russia	BB+	29 929	26 937
Bank 3	Russia	BBB-	26 380	58 379
Non-banking credit institutions	Russia	-	280 991	545 798
Other	Russia	-	124	135
Total for the Russian Federation			**853 815**	**1 293 158**
Bank 4	US, UK	A+	2 437 666	182 002
Bank 5	Austria	BBB+	224 311	4 101 643
Bank 6	Germany	BBB+	2 485	126 722
Others with a rating not lower than BBB		-	66 262	31 181
Total for other countries			**2 730 724**	**4 441 548**

7 Cash and Cash Equivalents (Continued)

Settlement accounts with trading systems represent balances on the Moscow Stock Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

8 Due from Other Banks

In thousands of Russian Roubles	Country	Rating Fitch/ S&P	2016	2015
Short-term deposits with the Central Bank of the Russian Federation	Russia	-	6 004 023	400 000
Transferred cover on letter of credit	Germany	BBB+	10 210	15 940
Long-term placements and margin deposits with other banks	Russia	BBB-	300	300
Total due from other banks			**6 014 533**	**416 240**

At 31 December 2016 and 2015, amounts due from other banks are neither past due nor impaired. There is no collateral on cash and cash equivalents.

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2016 and 31 December 2015. Refer to Note 33.

Interest rate analysis of due from other banks is disclosed in Note 29.

9 Loans and Advances to Customers

In thousands of Russian roubles	2016	2015
Loans to small and medium size enterprises (SME loans)	28 758 730	30 581 994
Loans to individuals - consumer loans and car loans	22 009 147	22 177 141
Loans to individuals - mortgage loans	20 371 174	14 494 656
Corporate loans	7 670 857	9 659 585
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**78 809 908**	**76 913 376**
Less provision for impairment of loans and advances to customers	(5 429 354)	(4 602 480)
Total loans and advances to customers	**73 380 554**	**72 310 896**

Movements in the provision for impairment of loans and advances to customers during 2016 are as follows.

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for impairment of loans and advances to customers at 1 January 2016	**1 739 898**	**503 622**	**1 767 575**	**591 385**	**4 602 480**
Provision for impairment of loans and advances to customers during the year	738 563	248 827	513 720	179 615	1 680 725
Provision on assigned loans written off	(331 561)	(180)	(4 877)	(3 592)	(340 210)
Amounts written off during the year as uncollectible	(247 135)	-	(264 560)	(1 946)	(513 641)
Provision for impairment of loans and advances to customers at 31 December 2016	**1 899 765**	**752 269**	**2 011 858**	**765 462**	**5 429 354**

9 Loans and Advances to Customers (Continued)

The provision for impairment during 2016 differs from the amount presented in consolidated statement of other comprehensive income, due to RR 199 586 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Movements in the provision for impairment of loans and advances to customers during 2015 are as follows:

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for impairment of loans and advances to customers at 1 January 2015	**1 576 868**	**898 481**	**1 180 702**	**438 533**	**4 094 584**
Provision for impairment of loans and advances to customers during the year	381 437	48 016	764 458	175 486	1 369 397
Provision on assigned loans written off	(119 538)	(61 524)	(722)	(1 018)	(182 802)
Amounts written off during the year as uncollectible	(98 869)	(381 351)	(176 863)	(21 616)	(678 699)
Provision for impairment of loans and advances to customers at 31 December 2015	**1 739 898**	**503 622**	**1 767 575**	**591 385**	**4 602 480**

The provision for impairment during 2015 differs from the amount presented in consolidated statement of other comprehensive income, due to RR 61 768 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

In 2016, the Group assigned its rights to overdue, impaired and written off loans totally amounting (before impairment provision) to RR 645 868 thousand (2015: RR 343 251 thousand) for RR 302 111 thousand (2015: RR 175 551 thousand). No right of recourse is provided for assignment agreements.

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

	2016		2015	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals (total), incl.	42 380 321	53.7	36 671 797	47.7
- consumer loans	*19 563 284*	*24.8*	*19 722 335*	*25.6*
- mortgage loans	*20 371 174*	*25.8*	*14 494 656*	*18.9*
- car loans	*2 445 863*	*3.1*	*2 454 806*	*3.2*
Trade	10 682 973	13.6	11 167 512	14.5
Agriculture	9 738 931	12.4	8 602 232	11.2
Manufacturing	8 113 915	10.3	9 632 467	12.5
Transport	3 036 650	3.8	5 575 396	7.3
Construction	1 471 688	1.9	1 849 959	2.4
Other	3 385 430	4.3	3 414 013	4.4
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**78 809 908**	**100.0**	**76 913 376**	**100.0**

At 31 December 2016, the Group had 10 major borrowers with aggregate loan amounting to RR 8 771 017 thousand, or 11.1% of the loan portfolio (2015: RR 11 720 309 thousand, or 15.2%).

At 31 December 2016, the Group had a major group of borrowers with aggregate loan amounting to RR 2 062 396 thousand, or 5.7% of the corporate loan portfolio and loans to SME (2015: RR 3 233 814 thousand, or 8.0%). Additionally, during 2016 a part of loans to this group of borrowers has been repaid by way of the transferof property to the Group (Note 13).

9 Loans and Advances to Customers (Continued)

Information about the carrying amount of loans and advances to customers by classes of collateral at 31 December 2016 is as follows:

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	28 721 476	7 376 702	15 386 797	19 493 157	70 978 132
- *real estate*	*18 349 842*	*6 199 395*	*3 038 371*	*16 846 493*	*44 434 101*
- *tradable securities*	*481 749*	-	*52 000*	-	*533 749*
- *motor vehicles*	*4 523 020*	*199 844*	*6 416 757*	*40 314*	*11 179 935*
- *agricultural equipment*	*2 106 695*	*279 411*	*62 846*	*3 011*	*2 451 963*
- *property*	*918 836*	*453 096*	*8 722*	*23 375*	*1 404 029*
- *pledge of rights*	*71 720*	-	*2 793*	*68 174*	*142 687*
- *goods in turnover*	*685 326*	*74 890*	*1 087*	-	*761 303*
- *third parties' guarantees*	*1 584 288*	*170 066*	*5 804 221*	*2 511 790*	*10 070 365*
Unsecured loans	37 254	294 155	6 622 350	878 017	7 831 776
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**28 758 730**	**7 670 857**	**22 009 147**	**20 371 174**	**78 809 908**

Information about the carrying amount of loans and advances to customers by classes of collateral at 31 December 2015 is as follows:

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	30 506 694	9 603 436	15 395 287	14 102 221	69 607 638
- *real estate*	*21 432 637*	*8 755 544*	*3 350 709*	*12 801 237*	*46 340 127*
- *tradable securities*	*341 684*	-	*9 100*	-	*350 784*
- *motor vehicles*	*3 527 746*	*350 579*	*6 381 212*	*38 023*	*10 297 560*
- *agricultural equipment*	*1 315 727*	*269 690*	*39 011*	*9 081*	*1 633 509*
- *property*	*1 166 284*	*169 712*	*113 085*	*31 553*	*1 480 634*
- *pledge of rights*	*88 607*	-	*6 607*	*83 027*	*178 241*
- *goods in turnover*	*799 445*	*38 884*	*1 608*	-	*839 937*
- *third parties' guarantees*	*1 834 564*	*19 027*	*5 493 955*	*1 139 300*	*8 486 846*
Unsecured loans	75 300	56 149	6 781 854	392 435	7 305 738
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**30 581 994**	**9 659 585**	**22 177 141**	**14 494 656**	**76 913 376**

The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2016 is as follows:

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Current and not impaired					
Individually significant borrowers					
- A1 rated	1 439 064	452 134	-	-	1 891 198
- A2 rated	78 397	675 874	-	-	754 271
- A3 rated	1 304 371	2 449 629	-	-	3 754 000
- B2 rated	-	1 583 221	-	-	1 583 221
Loans assessed on a portfolio basis					
- Agriculture	6 723 376	605 601	-	-	7 328 977
- Trade	7 982 651	344 725	-	-	8 327 376
- Manufacturing	3 968 855	667 505	-	-	4 636 360
- Other	4 524 456	469 164	-	-	4 993 620
- Mortgage loans	-	-	-	18 877 478	18 877 478
- Car loans	-	-	2 295 381	-	2 295 381
- Consumer loans	-	-	17 297 596	-	17 297 596
Total current and not impaired	**26 021 170**	**7 247 853**	**19 592 977**	**18 877 478**	**71 739 478**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	92 575	259	549 167	502 335	1 144 336
Total past due but not impaired	**92 575**	**259**	**549 167**	**502 335**	**1 144 336**
Impaired					
Loans assessed on a portfolio basis					
- up to 180 days overdue	256 848	-	262 720	178 734	698 302
- over 181 days overdue	2 388 137	422 745	1 604 283	812 627	5 227 792
Total impaired loans and advances to customers	**2 644 985**	**422 745**	**1 867 003**	**991 361**	**5 926 094**
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**28 758 730**	**7 670 857**	**22 009 147**	**20 371 174**	**78 809 908**
Less provision for impairment of loans and advances to customers	(1 899 765)	(752 269)	(2 011 858)	(765 462)	(5 429 354)
Total loans and advances to customers	**26 858 965**	**6 918 588**	**19 997 289**	**19 605 712**	**73 380 554**

9 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2015 is as follows:

In thousands of Russian Roubles	Loans to SME	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Current and not impaired					
Individually significant borrowers					
- A1 rated	1 245 457	2 465 596	-	-	3 711 053
- A2 rated	215 168	709 327	-	-	924 495
- A3 rated	1 590 341	3 181 671	-	-	4 772 012
- B1 rated	995 212	-	-	-	995 212
- B2 rated	3 864	1 042 242	-	-	1 046 106
Loans assessed on a portfolio basis					
- Agriculture	5 692 603	495 987	-	-	6 188 590
- Trade	9 652 541	92 538	-	-	9 745 079
- Manufacturing	4 104 692	968 257	-	-	5 072 949
- Other	4 414 766	293 968	-		4 708 734
- Mortgage loans	-	-		13 338 821	13 338 821
- Car loans	-	-	2 314 333	-	2 314 333
- Consumer loans	-	-	17 537 589	-	17 537 589
Total current and not impaired	**27 914 644**	**9 249 586**	**19 851 922**	**13 338 821**	**70 354 973**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	140 932	-	716 294	455 283	1 312 509
Total past due but not impaired	**140 932**	**-**	**716 294**	**455 283**	**1 312 509**
Impaired					
Loans assessed on a portfolio basis					
- up to 180 days overdue	460 555	257 133	287 283	152 811	1 157 782
- over 181 days overdue	2 065 863	152 866	1 321 642	547 741	4 088 112
Total impaired loans and advances to customers	**2 526 418**	**409 999**	**1 608 925**	**700 552**	**5 245 894**
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	**30 581 994**	**9 659 585**	**22 177 141**	**14 494 656**	**76 913 376**
Less provision for impairment of loans and advances to customers	(1 739 898)	(503 622)	(1 767 575)	(591 385)	(4 602 480)
Total loans and advances to customers	**28 842 096**	**9 155 963**	**20 409 566**	**13 903 271**	**72 310 896**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

9 Loans and Advances to Customers (Continued)

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due is the whole balance of such loans, not only the individual instalments that are past due. Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Group in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and justified performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the movements for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Group by selling the available collateral.

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

9 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2016:

In thousands of Russian Roubles	Over-collateralised assets: Assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Assets	Under-collateralised assets: Fair value of collateral
Loans to SME	8 270 670	15 898 015	20 488 060	9 386 361
Corporate loans	1 146 297	2 447 907	6 524 560	2 721 143
Consumer loans and car loans	14 094 285	33 272 291	7 914 862	1 038 894
Mortgage loans	18 984 571	53 820 639	1 386 603	453 892

The effect of collateral at 31 December 2015:

In thousands of Russian Roubles	Over-collateralised assets: Assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Assets	Under-collateralised assets: Fair value of collateral
Loans to SME	8 176 787	15 898 015	22 405 207	10 220 352
Corporate loans	734 689	1 022 158	8 924 896	3 407 869
Consumer loans and car loans	14 267 257	33 087 997	7 909 884	893 531
Mortgage loans	13 786 785	41 189 117	707 871	278 334

At 31 December 2016, fair value of collateral on corporate loans includes movable property (vehicles, agricultural machines, etc.) amounting to RR 8 166 555 thousand (2015: RR 6 660 936 thousand). The Group believes it reasonable to use this type of loan collateral, since it has practical experience in collecting overdue loans at the account of such property.

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. The fair value of these guarantees was RR 38 047 097 thousand at 31 December 2016 (2015: RR 31 976 324 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the credit department using analysis of comparable offers in the open market, subject to information available on specific features of assets being evaluated based on the Group's internal guidelines. Provision for impairment of loans and advances to customers reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan or the amount received from the disposal of the collateral will be insufficient.

At 31 December 2016, loans and advances to customers totally amounting to RR 430 413 thousand (2015: RR 693 079 thousand) were pledged as a collateral under obligations to other banks. Refer to Notes 16 and 31.

Carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2016 and 31 December 2015. Refer to Note 33.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

10 Investment in Associate

Before December 2007, AO TEPTS Teploenergo was a subsidiary of Center-invest Bank. Following the additional share issue in December 2007, Center-invest Bank Group holds 47.31% in the share capital of AO TEPTS Teploenergo and EBRD holds 25%. The core activity of the company is heat energy generation, transmission and distribution in the town of Taganrog, Rostov Region.

The table below summarises the movements in the carrying amount of the Group's investment in the associate.

In thousands of Russian Roubles	**2016**	**2015**
Carrying amount at 1 January	323 144	332 202
Share of result of associate	(7 735)	(10 743)
Revaluation of premises and equipment	-	1 685
Carrying amount at 31 December	**315 409**	**323 144**

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	**2016**	**2015**
Total current assets	282 498	295 811
Total non-current assets	704 909	739 044
Total current liabilities	(180 500)	(177 702)
Total non-current liabilities	(140 221)	(174 120)
Revenue	549 767	526 131
Loss	(16 348)	(22 708)
% interest held	47.31%	47.31%

11 Intangible Assets

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Carrying amount			
Balance at 1 January		390 961	427 669
Additions		88 491	10 695
Disposal/fully amortised		(3)	(47 403)
Balance at 31 December		**479 449**	**390 961**
Accumulated depreciation			
Balance at 1 January		138 205	147 059
Depreciation charge	25	30 369	38 025
Disposal/fully amortised		(3)	(46 879)
Balance at 31 December		**168 571**	**138 205**
Net carrying amount at 31 December		**310 878**	**252 756**

Residual value of intangible assets includes investments into the following software: SAP for Banking, SAP Business Warehouse data storage, TranzWare processing centre, CFT settlement centre, SAP Process Integration, GEMINI IBSC remote banking service system, SAP Human Capital Management, Terrasoft XRM Bank and other.

12 Premises and Equipment

In thousands of Russian Roubles	Note	Land	Premises	Other	Total
Residual value at 31 December 2014		**456 654**	**1 739 283**	**114 930**	**2 310 867**
Carrying amount					
Balance at the beginning of the year		456 654	1 884 589	1 067 929	3 409 172
Additions		-	22 249	51 627	73 876
Disposals		-	(1 181)	(12 213)	(13 394)
Transfer to other assets		(1 807)	(3 304)	-	(5 111)
Balance at the end of the year		**454 847**	**1 902 353**	**1 107 343**	**3 464 543**
Accumulated depreciation					
Balance at the beginning of the year		-	145 306	952 999	1 098 305
Depreciation charge	25	-	45 690	60 788	106 478
Disposals		-	(25)	(10 467)	(10 492)
Transfer to other assets		-	(289)	-	(289)
Balance at the end of the year		-	**190 682**	**1 003 320**	**1 194 002**
Residual value at 31 December 2015		**454 847**	**1 711 671**	**104 023**	**2 270 541**
Carrying amount					
Balance at the beginning of the year		454 847	1 902 353	1 107 343	3 464 543
Additions		-	17 690	68 311	86 001
Disposals		-	-	(8 265)	(8 265)
Transfer to other assets	15	(37 882)	-	-	(37 882)
Revaluation		104 923	(75 038)	-	29 885
Balance at the end of the year		**521 888**	**1 845 005**	**1 167 389**	**3 534 282**
Accumulated depreciation					
Balance at the beginning of the year		-	190 682	1 003 320	1 194 002
Depreciation charge	25	-	46 330	62 709	109 039
Disposals		-	-	(8 020)	(8 020)
Revaluation		-	(220 305)	-	(220 305)
Balance at the end of the year		**-**	**16 707**	**1 058 009**	**1 074 716**
Residual value at 31 December 2016		**521 888**	**1 828 298**	**109 380**	**2 459 566**

Premises and land were independently valued at 31 December 2016 by an independent firm of valuers ZAO BDO, Moscow, who hold a recognised and relevant professional qualification and have recent professional experience in valuation of assets of similar location and category. The valuation was based on market value determined using the comparative approach. To determine the fair value of premises and land plots, the appraiser adjusted the value of similar assets (the asking price of premises and land plots similar to those subject to valuation) for key price-forming parameters of the assets: designation of premises or land plot, adjustments for bargaining over price, location within the city, location in relation to main transport routes, the area, the set of transferred rights, etc.

13 Investment Properties

In thousands of Russian Roubles	2016	2015
Investment properties at fair value at 1 January	**126 822**	**-**
Additions	2 482 251	122 000
Transfer from owner-occupied premises	-	4 822
Investment properties at fair value at 31 December	**2 609 073**	**126 822**

Investment properties are fair valued by independent qualified valuer on an annual basis on 31 December or at the time when they are recorded in the Group's balance sheet.

Additions during 2016 include properties amounting to RR 2 196 091 thousand obtained as a repossessed collateral for loans from a major group of borrowers. As at 31 December 2016, the balance of loans receivable from this group was RR 2 062 396 thousand. Refer to Note 9. These properties are mostly represented by port land areas and port facilities. They were leased out by the Group under an operating lease to the same borrowers for the periods from one year to five years with the right of early termination of lease as agreed by the parties. The total amount of lease payments under the agreement is comparable to the amount of interest income on the loan. The Group intends to sell these properties within the period from one year to five years.

As at 31 December 2016, the above facilities and land were valued by an independent firm of valuers, OOO AF Center-Audit, Rostov-on-Don, who hold a recognised and relevant professional qualification and who have recent professional experience in valuation of assets of similar location and category. The valuation was based on market value determined using the comparative approach. To determine the fair value of land plots, the appraiser adjusted the value of similar assets (the asking price of plots similar to those subject to valuation) for key price forming parameters of the assets: designation of the land plot, adjustments for bargaining over price, for location within the city, location in relation to main transport routes and houses, the area, the set of transferred rights, etc. To determine the fair value of premises and facilities, the appraiser adjusted the market value of similar assets for their accumulated depreciation.

14 Other Financial Assets

In thousands of Russian Roubles	2016	2015
Trade receivables and prepayments	476 910	464 055
Plastic cards receivables	16 505	86 480
Other	68 183	127 516
Less impairment provision	(1 305)	-
Total other financial assets	**560 293**	**678 051**

The primary factor that the Group considers in determining whether a receivable is impaired is its overdue status.

Movements in the provision for impairment of other financial assets during 2016 and 2015 are as follows:

In thousands of Russian Roubles	2016	2015
Provision for impairment of other financial assets at 1 January	**-**	**-**
Charges to provision for impairment of other financial assets for the year	23 046	4 514
Disposal of impairment provision at the account of writing off the debt	(21 741)	(4 514)
Provision for impairment of other financial assets at 31 December	**1 305**	**-**

Carrying value of each class of other financial assets approximates their fair value at 31 December 2016 and 31 December 2015. Fair value of other financial assets is disclosed in Note 33.

15 Other Assets

In thousands of Russian Roubles	2016	2015
Repossessed collateral	240 923	143 194
Prepaid income tax	84 393	486
Prepaid taxes and recoverable taxes (other than income tax)	83 945	24 754
Equipment purchased for leasing purposes	17 755	22 589
Prepayments to suppliers of equipment for leasing purposes	15 703	44 491
Other	95 923	71 329
Lessimpairment provision	(120 818)	(71 954)
Total other assets	**417 824**	**234 889**

Repossessed collateral represents real estate and other assets acquired by the Group in the course settlement of overdue loans. The Group expects to sell the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at fair value when acquired.

At 31 December 2016, the repossessed collateral includes land plots reclassified from premises and equipment in the amount of RR 37 882 thousand (2015: 0).

Movements in the provision for impairment of other financial assets during 2016 and 2015 are as follows:

In thousands of Russian Roubles	2016	2015
Provision for impairment of other assets at 1 January	**71 954**	**76 173**
Charges to provision for impairment of other assets for the year	92 862	44 992
Recovery of provision for impairment upon sale of assets at the price exceeding their carrying amount	(14 492)	(11 638)
Disposal of impairment provision at the account of writing off the debt and sale of properties	(29 506)	(37 573)
Provision for impairment of other assets at 31 December	**120 818**	**71 954**

16 Due to Other Banks

In thousands of Russian Roubles	2016	2015
Loans from MSP bank under the SME lending programme	295 398	630 000
Correspondent accounts of other banks	9	1
Total due to other banks	**295 407**	**630 001**

Carrying value of each class of amounts due to other banks approximates their fair value at 31 December 2016 and 31 December 2015. Refer to Note 33.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

17 Customer Accounts

In thousands of Russian Roubles	2016	2015
State and public organisations		
- Current/settlement accounts	51 379	88 544
- Term placements	17 086	21 336
Other legal entities		
- Current/settlement accounts	12 006 755	9 919 972
- Term placements	2 397 579	3 407 105
Individuals		
- Current accounts/demand deposits	5 708 786	4 954 530
- Term placements	60 251 780	46 648 341
Total customer accounts	**80 433 365**	**65 039 828**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	65 960 566	82.0	51 602 871	79.4
Trade	4 115 663	5.1	3 860 366	5.9
Agriculture	1 947 722	2.4	1 819 300	2.8
Construction	1 760 495	2.2	1 545 561	2.4
Manufacturing	1 543 864	1.9	1 314 313	2.0
Transport	798 740	1.0	605 697	0.9
Energy	69 060	0.1	144 397	0.2
Financial sector	56 531	0.1	453 788	0.7
Education	55 685	0.1	97 927	0.2
Municipal organisations	32 850	0.0	19 153	0.0
Telecommunications	18 350	0.0	24 571	0.0
Other	4 073 839	5.1	3 551 884	5.5
Total customer accounts	**80 433 365**	**100.0**	**65 039 828**	**100.0**

At 31 December 2016, the total aggregate balance of 10 largest clients of the Group was RR 2 192 236 thousand or 2.7% of customer accounts (2015: RR 2 172 421 thousand or 3.3% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2016 and 31 December 2015. Refer to Note 33.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

18 Debt Securities in Issue

In thousands of Russian Roubles	2016	2015
Promissory notes	321 583	390 341
Bonds	105 449	2 781 219
Total debt securities in issue	**427 032**	**3 171 560**

Each bond has a par value of RR 1 000 and an embedded put option at par value of the bond exercisable at the moment of coupon income change.

Most bonds were redeemed during 2016 as a part of the firm offer.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 29.

19 Borrowings from International Financial Institutions

In 2009-2014, the Group opened several credit lines with International Finance Corporation (“IFC”), European Bank for Reconstruction and Development (“EBRD”), Austrian Bank of Economic Development (Oesterreichische Entwicklungsbank AG) (OeEB), Eurasian Bank for Development (EBD), funds Credit Suisse Microfinance Fund Management Company and responsAbility SICAV (Lux) (ResponsAbility), Black Sea Bank of Reconstruction and Development (Greece) (BSTDB) and International Investment Bank.

During 2016, the Group arranged an early repayment of the most part of amounts due to financial institutions.

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	Curren-cy	Original issue date	Repayable by tranches by:	Balance at 31 December 2016	Balance at 31 December 2015
ResponsAbility	RR	August 2013	February 2017	182 116	496 369
BSTDB	Euro	February 2014	June 2019	-	1 594 528
OeEB	Euro	September 2012	April 2019	-	1 402 405
International Investment Bank	Euro	October 2014	October 2017	-	959 374
EBRD	RR	November 2009	June 2017	-	921 084
IFC	RR	March 2013	March 2016	-	705 945
Total borrowings from international financial institutions	**-**	**-**	**-**	**182 116**	**6 079 705**

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2016 and 31 December 2015, as interest rate of these borrowings is floating. Refer to Note 33.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on covenants related to borrowings from international financial institutions is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

20 Subordinated Debt

In thousands of Russian Roubles	2016	2015
Subordinated loan from DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	1 846 573	2 215 770
Subordinated loan from EBRD	1 231 067	1 477 206
Total subordinated debt	**3 077 640**	**3 692 976**

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date
Subordinated loan from DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	30 000	June 2008	October 2018
Subordinated loan from EBRD	20 000	April 2008	October 2018

20 Subordinated Debt (Continued)

The carrying value of subordinated loans approximates their fair value at 31 December 2016 and 31 December 2015, as interest rate of these loans is floating. Refer to Note 33.

The claims of other lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on covenants related to borrowings is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

21 Other Liabilities

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Deposit Insurance Agency		322 671	50 350
Accrued employee benefit costs		124 122	49 962
Taxes payable other than on income		30 598	27 042
Provisions for contingent liabilities	31	10 766	13 668
Other		4 517	14 433
Income tax liability		-	174 576
Total other liabilities		**492 674**	**330 031**

Movements in the provision for contingent liabilities during 2016 and 2015 are as follows:

In thousands of Russian Roubles	**2016**	**2015**
Provision for contingent liabilities at 1 January	13 668	15 028
Provision for liabilities and charges during the year	5 629	1 927
Utilisation of provision during the year	(8 531)	(3 287)
Provision for contingent liabilities at 31 December	**10 766**	**13 668**

The provision for contingent liabilities includes a provision for legal claims brought against the Group by borrowers and lessees. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 31.

22 Share Capital

In thousands of Russian Roubles except for number of shares	**Number of outstanding shares**			**Ordinary shares**	**Preference shares**	**Share premium**	**Total**
	Ordinary shares	**Preference shares with a par value of RR 4**	**Preference shares with a par value of RR 1 000**				
At 1 January 2015	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
New shares issued	6 756 757	-	-	67 568	-	432 432	500 000
At 31 December 2015	**84 307 507**	**123 125**	**90 000**	**1 230 354**	**95 923**	**2 078 860**	**3 405 137**
At 31 December 2016	**84 307 507**	**123 125**	**90 000**	**1 230 354**	**95 923**	**2 078 860**	**3 405 137**

The nominal registered amount of the Bank's issued charter capital, 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 933 568 thousand (2015: RR 933 568 thousand). At 31 December 2016 and 31 December 2015, all of the Bank's outstanding shares were authorised, issued and fully paid in.

22 Share Capital (Continued)

All ordinary shares have a nominal value of RR 10 per share (2015: RR 10 per share). Each share carries one vote.

The preference shares have a par value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Preference share dividends are set at 20 % p.a. (2015: 20 % p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

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

23 Interest Income and Expense

(in thousands of Russian Roubles)	2016	2015
Interest income		
Loans and advances to SME	4 411 565	4 476 745
Consumer loans and car loans	3 564 438	3 350 717
Mortgage loans	2 066 652	1 630 002
Corporate loans	901 687	1 027 918
Impaired loans	381 504	329 667
Short-term deposits with the Central Bank of the Russian Federation, amounts due from and accounts with other banks	275 685	33 891
Finance income arising from leasing	64 288	80 727
Debt trading securities	-	159 830
Total interest income	**11 665 819**	**11 089 497**
Interest expense		
Term deposits of individuals	5 405 306	4 632 640
Borrowings from international financial institutions and subordinated debt	534 064	938 077
Term deposits of legal entities	237 639	282 257
Bonds issued	221 129	947 650
Current accounts of legal entities	71 450	88 104
Term placements of other banks	48 444	106 625
Promissory notes issued	26 363	74 498
Due to the Central Bank of the Russian Federation	21	592 069
Total interest expense	**6 544 416**	**7 661 920**
Net interest income	**5 121 403**	**3 427 577**

24 Fee and Commission Income and Expense

(in thousands of Russian Roubles)	2016	2015
Fee and commission income		
- Settlement transactions	509 162	473 772
- Plastic card transactions	334 550	286 415
- Cash transactions	255 721	246 001
- Guarantees issued	77 744	109 002
- Currency transactions	31 848	40 940
- Other	39 375	36 440
Total fee and commission income	**1 248 400**	**1 192 570**

24 Fee and Commission Income and Expense (Continued)

(in thousands of Russian Roubles)	2016	2015
Fee and commission expense		
- Plastic card transactions	184 847	150 635
- Settlement and currency transactions	79 942	64 999
- Cash collection	54 824	51 097
- Collection agencies	46 835	46 043
- Borrowings	7 263	5 779
- Guarantees received	99	8 277
- Other	27 418	37 209
Total fee and commission expense	**401 228**	**364 039**
Net fee and commission income	**847 172**	**828 531**

25 Administrative and other operating expenses

In thousands of Russian Roubles	Note	2016	2015
Staff costs		1 443 781	1 416 798
Maintenance and lease of premises and equipment		261 556	196 546
Taxes other than on income		117 468	80 751
Depreciation of premises and equipment	12	109 039	106 478
Consulting and information services		98 949	73 714
Telecommunication and mail		59 739	38 331
Benefits paid to the Board of Directors		39 689	31 469
Advertising and marketing services		35 371	30 659
Staff costs other than salary		33 959	27 678
Security		33 640	26 637
Repair of premises and equipment		30 382	19 034
Amortisation	11	30 369	38 025
Travel and entertaining expenses		24 878	15 960
Insurance		22 129	19 901
Stationary		21 091	14 343
Maintenance and repair of motor vehicles		15 404	13 390
Other		40 237	21 787
Total administrative and other operating expenses		**2 417 681**	**2 174 975**

Included in staff costs are contributions to statutory pension of RR 203 390 thousand, social security fund and obligatory medical insurance fund of RR 79 945 thousand (2015: RR 217 480 and RR 83 414 thousand accordingly).

26 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2016	2015
Current income tax expense	199 967	360 352
Deferred tax	84 188	(192 195)
Income tax expense for the year	**284 155**	**168 157**

26 Income Taxes (Continued)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to 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	**1 288 126**	**702 989**
Theoretical tax charge at statutory rate (2016: 20%; 2015: 20%)	257 625	140 598
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	26 530	27 559
Income tax expense for the year	**284 155**	**168 157**

(c) Deferred taxes analysed by type of temporary difference

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

In thousands of Russian Roubles	1 January 2016	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2016
Loans and advances to customers	314 091	(122 009)	-	192 082
Other assets and accruals	37 549	4 171	-	41 720
Other liabilities and accruals	17 561	71 425	-	88 986
Other	8 814	(5 244)	-	3 570
Total deferred tax asset	**378 015**	**(51 657)**	-	**326 358**
Premises and equipment	(241 534)	3 240	(50 038)	(288 332)
Investment in associate	(60 641)	1 547	-	(59 094)
Other	(7 533)	(37 318)	-	(44 851)
Total deferred tax liability	**(309 708)**	**(32 531)**	**(50 038)**	**(392 277)**
Less offsetting with deferred tax assets	378 015	(51 657)	-	326 358
Net deferred tax (liability)/asset	**68 307**	**(84 188)**	**(50 038)**	**(65 919)**

In thousands of Russian Roubles	1 January 2015	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2015
Loans and advances to customers.	113 020	201 071	-	314 091
Other assets and accruals	32 027	5 522	-	37 549
Other liabilities and accruals	26 108	(8 547)	-	17 561
Other	21 961	(13 147)	-	8 814
Total deferred tax asset	**193 116**	**184 899**	**-**	**378 015**
Premises and equipment	(242 839)	1 305	-	(241 534)
Investment in associate	(62 453)	2 340	(528)	(60 641)
Other	(11 185)	3 651	-	(7 533)
Total deferred tax liability	**(316 477)**	**7 296**	**(528)**	**(309 708)**
Less offsetting with deferred tax assets	193 116	184 899	-	378 015
Net deferred tax (liability)/asset	**(123 361)**	**192 195**	**(528)**	**68 307**

26 Income Taxes (Continued)

The main part of the net deferred tax asset is expected to be settled in the term more than 12 months, or has no stated maturity.

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

27 Dividends

	2016		2015	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends declared during the period	278 215	18 099	-	18 099
Dividends paid during the period	(278 215)	(18 099)	-	(18 099)
Other movements	-	29	-	28

In June 2016, the Bank declared dividends on preference shares with a par value of RR 1 000 – RR 200 per share (2015: RR 200 per share) and on preference shares with a par value of RR 4 – RR 0.8 per share (2015: RR 0.8 per share). In June 2016 the Bank declared dividends on ordinary shares – RR 3.3 per share (2015: the Bank did not declare dividends on ordinary shares). All dividends were declared and paid in Russian Roubles. A part of declared dividends was not claimed. Dividends not claimed within three years are returned to retained earnings.

28 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the chief operating decision maker (CODM) are performed by the Executive Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the following main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, private customers, deposits, investment savings products, custody, credit and debit cards, municipal payments. This segment does not include loans to individuals other than lending through plastic cards.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending and leasing. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail and plastic cards have been aggregated into one segment - retail banking.

28 Segment Analysis (Continued)

In addition, the Bank's Executive Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance.

Measurement of operating segment profit or loss, assets and liabilities

The Executive Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted to statutory subsequent events is used;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
- income on impaired loans is not recognised;
- commission income related to lending and commission expenses on borrowings is recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- funds are generally reallocated between segments ignoring internal interest rates.

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

In thousands of Russian Roubles	**Lending**	**Treasury**	**Retail banking**	**Total**
2016				
External revenues:				
Interest income	10 525 535	275 684	129 057	10 930 276
Fee and commission income and other operating income	654 651	640 702	672 639	1 967 992
Total revenues	**11 180 186**	**916 386**	**801 696**	**12 898 268**
Interest expense	-	(1 075 920)	(5 491 384)	(6 567 304)
Provision for impairment	(1 994 306)	5 197	(1 260)	(1 990 369)
Fee and commission expenses and other expenses	(416 974)	(130 939)	(204 338)	(752 251)
Segment result	**8 768 906**	**(285 276)**	**(4 895 286)**	**3 588 344**
Total reportable segment assets	**73 038 744**	**6 167 523**	**-**	**79 206 267**
Total reportable segment liabilities	**-**	**(14 839 929)**	**(69 114 065)**	**(83 953 994)**

28 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

In thousands of Russian roubles	Lending	Treasury	Retail banking	Total
2015				
External revenues:				
Interest income	10 082 464	197 484	131 760	10 411 708
Fee and commission income and other operating income	545 977	593 471	593 060	1 732 508
Gains less losses from trading securities	-	42 014	-	42 014
Total revenues	**10 628 441**	**832 969**	**724 820**	**12 186 230**
Interest expense	-	(3 018 333)	(4 638 558)	(7 656 891)
Provision for impairment	(208 733)	2 272	(1 853)	(208 314)
Gains less losses from trading in foreign currencies and foreign exchange translation	-	(37 060)	-	(37 060)
Fee and commission expenses and other expenses	(223 438)	(96 068)	(172 422)	(491 928)
Segment result	**10 196 270**	**(2 316 220)**	**(4 088 013)**	**3 792 037**
Total reportable segment assets	**73 112 082**	**767 818**	**-**	**73 879 900**
Total reportable segment liabilities	**-**	**(23 995 002)**	**(53 583 222)**	**(77 578 224)**

Reconciliation of reportable segment profit or loss, assets and liabilities

In thousands of Russian Roubles	2016	2015
Total revenues for reportable segments	**12 898 268**	**12 186 230**
Effective interest method application	25 569	25 620
Fair value of trading securities portfolio recalculation	7 262	(6 053)
Recognition of interest income on impaired loans	361 346	341 136
Foreign exchange translation losses less gains	13 059	(459 976)
Gains less losses from conversion operations on the interbank market	15 550	535 872
Consolidation effect	(154)	(15 818)
Other	(63 246)	(48 099)
Total consolidated revenues	**13 257 654**	**12 558 912**

Total consolidated revenues comprise interest income, fee and commission income, gains less losses on transactions with trading securities, foreign currency, income from assignment, repayment of debt earlier written off and other operating income.

In thousands of Russian Roubles	2016	2015
Total reportable segment result	**3 588 344**	**3 792 037**
Administrative expenses	(2 915 150)	(2 447 768)
Effective interest method application	(4 019)	5 761
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	37 979	15 405
Recognition of interest income on impaired loans	361 346	341 136
Recalculation of provision for impairment	626 957	(920 323)
Consolidation effect	(12 156)	(19 664)
Events after the end of the reporting period	(333 777)	(64 222)
Amortisation recalculation	21 980	11 842
Other	(83 378)	(11 215)
Profit before tax	**1 288 126**	**702 989**

28 Segment Analysis (Continued)

In thousands of Russian Roubles	2016	2015
Total reportable segment assets	**79 206 267**	**73 879 900**
Unallocated assets	16 653 625	16 042 083
Recalculation of provision for impairment	(233 850)	(909 740)
Recognition of interest income on impaired loans	1 028 661	723 892
Application of effective interest rate method to fee and commission income	(239 456)	(266 654)
Finance lease adjustments	(60 046)	(93 385)
Consolidation effect	266 056	268 507
Other	(45 568)	(3 604)
Total consolidated assets	**96 575 689**	**89 640 999**

In thousands of Russian Roubles	2016	2015
Total reportable segment liabilities	**83 953 994**	**77 578 224**
Unallocated liabilities	1 252 537	1 541 499
Application of effective interest rate method to fee and commission expenses	(6 885)	(36 473)
Consolidation effect	(135 224)	(48 108)
Other	34	2 462
Total consolidated liabilities	**85 064 456**	**79 037 604**

Unallocated assets include cash, premises and equipment and intangible assets, investment properties and other assets, unallocated liabilities – other liabilities.

Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 23 and 24.

Major customers

The Group does not have customers, revenues from which exceed 10% the total revenues.

29 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, business event (including legal, strategic and reputational risks) and system risk.

The Bank's risk management function is viewed as a set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by adequate reserves level;
- Covering risks by adequate capital level;
- Monitoring compliance with internal procedures and regulations.

29 Financial Risk Management (Continued)

The Bank manages risks on the basis of the document "Risk Management Policy of Public Join-Stock Company Commercial Bank "Center-invest" approved by the Bank's Board of Directors in February 2015. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures; mandatory business lines and types of risks for monitoring; interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Accepting risks on the basis of the level of profitability and risks associated with business lines;
- Priority of lending operations development;
- Evaluation of market risks associated with assets on a regular basis;
- Consideration of the risk level in evaluating business lines' efficiency;
- Capital and reserves management.

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

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Diversifying the loan portfolio;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving the methods of reviewing borrowers' financial and business activity enabling adequate evaluation of the level of risk associated with loans and other credit instruments;
- Regular monitoring of borrowers' financial position, condition of collateral and debt servicing;
- Using same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level;
- Performing preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

Such risks are monitored on a regular basis.

29 Financial Risk Management (Continued)

Lending transactions are approved according to individual decision-making limits and the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million (2015: RR 10 million) (without positive credit history) and RR 20 million (2015: RR 20 million) (with positive credit history) to 25% (2015: 25%) of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million (2015: RR 10 million) (without positive credit history) and RR 20 million (2015: RR 20 million) (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Transactions of borrowers and groups of related borrowers - legal entities and entrepreneurs with an aggregate debt of up to RR 3 million (2015: up to RR 3 million) on standard loan programmes are approved by sole decisions of authorised persons who are confirmed by the order of the Chairman of the Bank's Management Board.

Transactions of borrowers and groups of related borrowers - individuals on standard loan programmes are approved by authorised persons within the limits set by the order of the Chairman of the Bank's Executive Board.

Loan applications originated by relevant client relationship managers are considered on the basis of standardised procedures and passed on to an individual having a personal decision-making limit or to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk, credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by the appropriate Credit Committees, the Risk Management Committee and the Committee for Problem Loans. The Group uses quality categories in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and implements a set of measures aimed at collection of overdue debts.

Additionally, in 2013, to minimize credit risks the Bank set up a control group comprised of the most experienced employees of the Head Office and branches. Loans are allocated among them at random and through a random sampling technique on a monthly basis. The control group reviews compliance of an issued loan with the Bank's requirements (decision of an authorised body, correct and full documentation, quality of monitoring, etc.). The Group's credit departments review ageing analysis of outstanding loans and follow up past due balances. The ageing and other information about credit risk is disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

29 Financial Risk Management (Continued)

The Bank manages market risks and monitors corresponding limits on a regular basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading transactions;
- Setting limits on financial investments;
- Setting limits on homogeneous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2016, the level of market risk was RR 12 744 thousand under a limit of RR 1 710 333 thousand (2015: RR 46 145 thousand under a limit of RR 2 530 210 thousand).

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to the risks associated with changes in precious metals' prices due to the absence of such transactions.

At 31 December 2016, the ten day VAR level was RR 4 248 thousand (2015: RR 17 024 thousand).

Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on the basis of simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	At 31 December 2016				At 31 December 2015			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign Exchange Spot Contracts**	**Net position**
Russian Roubles	83 849 361	(77 962 842)	-	**5 886 519**	74 756 138	(67 252 072)	(16 179)	**7 487 887**
US dollars	5 467 421	(5 432 402)	-	**35 019**	6 386 441	(6 323 529)	-	**62 912**
Euro	1 091 066	(1 076 319)	-	**14 747**	5 131 048	(5 101 713)	16 205	**45 540**
Other	55 091	(34 300)	-	**20 791**	90 887	(30 259)	-	**60 628**
Total	**90 462 939**	**(84 505 863)**	**-**	**5 957 076**	**86 364 514**	**(78 707 573)**	**26**	**7 656 967**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets will not give rise to any material currency risk.

29 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	2016		2015	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 17% (2015: 30%)	4 763	4 763	15 099	15 099
US dollar weakening by 17% (2015: 72%)	(4 763)	(4 763)	(15 099)	(15 099)
Euro strengthening by 20% (2015: 17%)	2 360	2 360	6 193	6 193
Euro weakening by 20% (2015: 17%)	(2 360)	(2 360)	(6 193)	(6 193)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

The management monitors exposure to interest rate risk on a quarterly basis and sets limits on the level of interest rate risk that may be undertaken.

The Group evaluates new products from the point of their impact on interest rate risk. The Treasury department of the Group operates daily within approved limits on the level of interest rate risk whereas the Risk Management department independently monitors compliance of actual level of interest rate to the approved limits.

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

The table below summarises the Group’s exposure to interest rate risks. The table presents the aggregated amounts of the Group’s financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non-interest bearing assets**	**Total**
31 December 2016							
Total financial assets	18 875 242	6 430 292	6 596 260	14 325 270	44 229 878	5 997	90 462 939
Total financial liabilities	(19 380 334)	(1 823 960)	(5 307 602)	(3 557 167)	(54 436 800)	-	(84 505 863)
Net interest sensitivity gap at 31 December 2016	**(505 092)**	**4 606 332**	**1 288 658**	**10 768 103**	**(10 206 922)**	**5 997**	**5 957 076**
31 December 2015							
Total financial assets	17 368 082	6 188 678	10 729 778	14 327 277	37 744 728	5 997	86 364 540
Total financial liabilities	(16 950 082)	(13 063 573)	(7 189 236)	(3 483 347)	(38 021 335)	-	(78 707 573)
Net interest sensitivity gap at 31 December 2015	**418 000**	**(6 874 895)**	**3 540 542**	**10 843 930**	**(276 607)**	**5 997**	**7 656 967**

All of the Group’s debt instruments reprice within 5 years (2015: all reprice within 5 years).

29 Financial Risk Management (Continued)

At 31 December 2016, if interest rates had been 400 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 231 992 thousand (2015: if interest rates had been 400 basis points higher/lower, profit would have been RR 585 883 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Group:

	2016				2015			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash balances with the CBRF	0.0	-	-	-	0.0	-	-	-
Correspondent accounts and overnight placements with other banks	0.2	0.8	0.0	0.3	0.5	0.0	0.0	0.3
Due from other banks								
- Placements with the Central Bank of the Russian Federation	9.7	-	-	-	10.0	-	-	-
Loans and advances to customers:								
- Corporate loans	11.9	4.0	-	-	13.2	8.4	-	-
- Loans to SME	13.7	7.7	6.5	-	14.5	6.7	6.4	-
- Loans to individuals - consumer loans	17.4	4.6	-	-	17.7	10.0	-	-
- Loans to individuals – car loans	14.4	-	-	-	14.9	-	-	-
Loans to individuals - mortgage loans	12.8	12.7	-	-	12.9	12.8	-	-
Finance lease receivables	18.5	-	-	-	19.8	-	-	-
Liabilities								
Due to other banks	9.1	-	-	-	9.1	-	-	-
Customer accounts								
- Current accounts of legal entities	0.5	0.0	0.0	0.0	0.6	0.0	0.0	0.0
- Demand deposits of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.2
- Term deposits of legal entities	7.3	1.8	2.2	-	9.5	2.8	2.3	-
- Term deposits of individuals	9.7	0.9	0.4	0.2	12.0	2.5	2.2	12.0
Promissory notes issued	8.6	0.0	-	-	10.1	-	-	-
Bonds issued	10.0	-	-	-	14.7	-	-	-
Loans from international financial institutions	10.5	-	-	-	14.5	-	3.9	-
Subordinated debt	-	7.4	-	-	-	6.7	-	-

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

Other price risk. The Group has limited exposure to equity price risk.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit or loss and equity for the year and at the reporting date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the early repayment amount is at or close to the amortised cost of loans and advances to customers.

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

In thousands of Russian Roubles	Russia	USA	Europe	Other countries	Total
Assets					
Cash and cash equivalents	6 898 957	2 432 277	294 269	4 178	9 629 681
Mandatory cash balances with the CBRF	611 606	-	-	-	611 606
Due from other banks	6 004 323	-	10 210	-	6 014 533
Loans and advances to customers	72 693 913	-	685 914	727	73 380 554
Finance lease receivables	266 272	-	-	-	266 272
Other financial assets	555 017	-	4 323	953	560 293
Total financial assets	**87 030 088**	**2 432 277**	**994 716**	**5 858**	**90 462 939**
Liabilities					
Due to other banks	295 407	-	-	-	295 407
Customer accounts	80 340 311	2 712	22 323	68 019	80 433 365
Debt securities in issue	427 032	-	-	-	427 032
Borrowings from international financial institutions	-	-	182 116	-	182 116
Subordinated debt	-	-	3 077 640	-	3 077 640
Other financial liabilities	90 303	-	-	-	90 303
Total financial liabilities	**81 153 053**	**2 712**	**3 282 079**	**68 019**	**84 505 863**
Net position	**5 877 035**	**2 429 565**	**(2 287 363)**	**(62 161)**	**5 957 076**
Credit related commitments (Note 31)	**9 991 184**	**-**	**-**	**-**	**9 991 184**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Cash on hand and premises and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2015 is disclosed in table below:

In thousands of Russian Roubles	Russia	USA	Europe	Other countries	Total
Assets					
Cash and cash equivalents	7 745 229	175 729	4 255 681	10 138	12 186 777
Mandatory cash balances with the CBRF	411 386	-	-	-	411 386
Due from other banks	400 300	-	15 940	-	416 240
Loans and advances to customers	70 927 508	-	1 382 573	815	72 310 896
Finance lease receivables	361 190	-	-	-	361 190
Other financial assets	677 297	-	320	434	678 051
Total financial assets	**80 522 910**	**175 729**	**5 654 514**	**11 387**	**86 364 540**
Liabilities					
Due to other banks	630 001	-	-	-	630 001
Customer accounts	64 967 540	2 163	21 920	48 205	65 039 828
Debt securities in issue	3 171 560	-	-	-	3 171 560
Borrowings from international financial institutions	959 374	705 945	4 414 386	-	6 079 705
Subordinated debt	-	-	3 692 976	-	3 692 976
Other financial liabilities	93 447	-	56	-	93 503
Total financial liabilities	**69 821 922**	**708 108**	**8 129 338**	**48 205**	**78 707 573**
Net position	**10 700 988**	**(532 379)**	**(2 474 824)**	**(36 818)**	**7 656 967**
Credit related commitments (Note 31)	**10 088 306**	**-**	**-**	**-**	**10 088 306**

29 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 9.

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Audit and Compliance Committee at the Board of Directors, regularly controlled by the Asset and Liability Committee and are used in the current operations of the Bank.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities							
Due to other banks	9	88 103	128 419	31 960	19 388	63 197	331 076
Customer accounts	19 065 423	2 122 207	2 835 980	4 794 807	61 118 940	-	89 937 357
Debt securities in issue	207 447	-	109 830	126 259	-	-	443 536
Borrowings from international financial institutions	-	184 755	-	-	-	-	184 755
Subordinated debt	-	-	111 504	112 710	3 257 649	-	3 481 863
Contingent credit related commitments	294 517	1 833 748	1 204 342	4 066 086	2 592 490	-	9 991 183
Other financial liabilities	36 513	8 722	-	-	-	-	45 235
Total potential future payments for financial obligations	**19 603 909**	**4 237 535**	**4 390 075**	**9 131 822**	**66 988 467**	**63 197**	**104 415 005**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

29 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities							
Due to other banks	1	9 419	14 443	71 028	653 863	17 998	766 752
Customer accounts	16 706 946	3 619 686	5 252 963	3 600 430	45 055 941	-	74 235 966
Debt securities in issue	273 384	116 631	2 688 547	291 827	21 743	-	3 392 132
Borrowings from international financial institutions	76 271	6 107 748	-	-	-	-	6 184 019
Subordinated debt	-	3 756 132	-	-	-	-	3 756 132
Gross settled foreign exchange spot contracts	16 179	-	-	-	-	-	16 179
Contingent credit related commitments	575 720	1 361 427	1 335 370	3 760 625	3 055 164	-	10 088 306
Other financial liabilities	40 974	4 727	-	3 000	-	-	48 701
Total potential future payments for financial obligations	**17 689 475**	**14 975 770**	**9 291 323**	**7 726 910**	**48 786 711**	**17 998**	**98 488 187**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity, in which case they forfeit their right to accrued interest.

The Group does not use the above maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2016:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No defined maturity	Total
Assets								
Cash and cash equivalents	9 629 681	-	-	-	-	-	-	9 629 681
Mandatory cash balances with the Central Bank of the Russian Federation	611 606	-	-	-	-	-	-	611 606
Due from other banks	6 004 323	-	-	10 210	-	-	-	6 014 533
Loans and advances to customers	2 046 644	4 567 504	5 362 746	14 061 745	32 418 342	14 923 573	-	73 380 554
Finance lease receivables	16 871	30 735	42 863	73 738	102 065	-	-	266 272
Investments in associate	-	-	-	-	-	-	315 409	315 409
Investment properties	-	-	-	-	2 482 251	-	126 822	2 609 073
Intangible assets	-	-	-	-	-	-	310 878	310 878
Premises and equipment	-	-	-	-	-	-	2 459 566	2 459 566
Other financial assets	296 371	111 825	1 244	87 739	57 117	-	5 997	560 293
Other assets	75 733	108 103	17 766	70 570	145 652	-	-	417 824
Total assets	**18 681 229**	**4 818 167**	**5 424 619**	**14 304 002**	**35 205 427**	**14 923 573**	**3 218 672**	**96 575 689**
Liabilities								
Due to other banks	9	83 332	124 998	28 847	-	58 221	-	295 407
Customer accounts	18 897 982	1 628 831	2 130 109	3 423 552	54 352 891	-	-	80 433 365
Debt securities in issue	207 447	-	98 497	121 088	-	-	-	427 032
Borrowings from international financial institutions	-	182 116	-	-	-	-	-	182 116
Subordinated debt	-	-	1 865 308	-	1 212 332	-	-	3 077 640
Other financial liabilities	37 719	13 013	1 356	12 527	25 688	-	-	90 303
Other liabilities	59 164	392 165	6	17 051	24 288	-	-	492 674
Deferred income tax liability	-	-	-	-	-	-	65 919	65 919
Total liabilities	**19 202 321**	**2 299 457**	**4 220 274**	**3 603 065**	**55 615 199**	**58 221**	**65 919**	**85 064 456**
Net liquidity gap at 31 December 2016	**(521 092)**	**2 518 710**	**1 204 345**	**10 700 937**	**(20 409 772)**	**14 865 352**	**3 152 753**	**11 511 233**
Cumulative liquidity gap as at 31 December 2016	**(521 092)**	**1 997 618**	**3 201 963**	**13 902 900**	**(6 506 872)**	**8 358 480**	**11 511 233**	

29 Financial Risk Management (Continued)

The above analysis is based on expected maturities. Therefore, borrowings from international financial institutions and subordinated debt are stated on the basis of contractual maturities, i.e., without taking into consideration the impact of non-compliance with the covenants (Note 31) because on the basis of negotiations with the creditors the Group's management estimated the probability of early repayment at 31 December 2016 as low. The expected negative gap in the table above is planned to be covered by continuous attracting of customer accounts.

The maturity analysis at 31 December 2015 is as follows:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No defined maturity	Total
Assets								
Cash and cash equivalents	12 186 777	-	-	-	-	-	-	12 186 777
Mandatory cash balances with the Central Bank of the Russian Federation	411 386	-	-	-	-	-	-	411 386
Due from other banks	400 300	-	-	15 940	-	-	-	416 240
Loans and advances to customers	2 363 123	4 333 134	6 064 563	15 631 933	32 682 350	11 235 793	-	72 310 896
Finance lease receivables	36 891	41 240	35 292	94 880	152 887	-	-	361 190
Investments in associate	-	-	-	-	-	-	323 144	323 144
Intangible assets	-	-	-	-	-	-	252 756	252 756
Premises and equipment	-	-	-	-	-	-	2 270 541	2 270 541
Other financial assets	341 193	15 579	2 292	215 346	97 644	-	5 997	678 051
Other assets	16 091	58 699	20 743	63 913	75 443	-	126 822	361 711
Deferred income tax asset	-	-	-	-	-	-	68 307	68 307
Total assets	**15 755 761**	**4 448 652**	**6 122 890**	**16 022 012**	**33 008 324**	**11 235 793**	**3 047 567**	**89 640 999**
Liabilities								
Due to other banks	1	-	-	41 666	588 334	-	-	630 001
Customer accounts	16 588 225	3 232 048	4 676 252	2 686 604	37 856 699	-	-	65 039 828
Debt securities in issue	256 177	115 950	2 510 995	280 299	8 139	-	-	3 171 560
Borrowings from international financial institutions	75 726	294 491	1 642 869	1 131 629	2 934 990	-	-	6 079 705
Subordinated debt	-	-	52 023	-	3 640 953	-	-	3 692 976
Other financial liabilities	41 514	7 059	1 989	16 444	26 497	-	-	93 503
Other liabilities	81 973	197 598	11	25 257	25 192	-	-	330 031
Total liabilities	**17 043 616**	**3 847 146**	**8 884 139**	**4 181 899**	**45 080 804**	**-**	**-**	**79 037 604**
Net liquidity gap at 31 December 2015	**(1 287 855)**	**601 506**	**(2 761 249)**	**11 840 113**	**(12 072 480)**	**11 235 793**	**3 047 567**	**10 603 395**
Cumulative liquidity gap as at 31 December 2015	**(1 287 855)**	**(686 349)**	**(3 447 598)**	**8 392 515**	**(3 679 965)**	**7 555 828**	**10 603 395**	**-**

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

The management of the Group believes that in spite of a substantial liquidity gap, diversification of liabilities by number and type of creditors, the past experience and liability dynamics in 2016 would indicate that these funds provide a stable source of funding for the Group.

29 Financial Risk Management (Continued)

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank's Executive Board. This activity includes the following:

- ongoing collecting and analysing information on operating losses;
- Identifying sources of operational risk in the credit institution's activity;
- Identifying and preventing fraud in banking transactions;
- Developing regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank implemented an efficient system for identifying and preventing fraud transactions with plastic cards.

The Bank's information security and continuity are ensured by the Bank's Information Security Policy developed on the basis of ISO and approved by the Board of Directors. The Bank has adopted the set of documents on the Bank of Russia's standardisation "Ensuring Information Security of the Banking System of the Russian Federation". The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank's property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

Offsetting financial assets and liabilities. Repurchase receivables are subject to offsetting with liabilities from sale and repurchase agreements in case of non-fulfilment of contractual obligations.

30 Management of Capital

The Group's objectives when managing capital are to: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (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 based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel I is as follows:

In thousands of Russian Roubles	**2016**	**2015**
Tier 1 capital		
Share capital	1 326 277	1 326 277
Share premium	2 078 860	2 078 860
Retained earnings	6 752 956	6 005 447
Total tier 1 capital	**10 158 093**	**9 410 584**
Tier 2 capital		
Revaluation reserve for land and premises	1 353 140	1 192 811
Subordinated debt	1 086 769	2 034 642
Total tier 2 capital	**2 439 909**	**3 227 453**
Total capital	**12 598 002**	**12 638 037**

30 Management of Capital (Continued)

At 31 December 2016, the Bank's capital adequacy ratio, calculated in accordance with Basel I is 17.0% (2015: 17.1%).

The management of the Bank believes that the Group and the Bank complied with all externally imposed capital requirements throughout 2016 and 2015. Information on compliance with the covenants related to borrowings is disclosed in Note 31.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2016, the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. A provision of RR 10 766 thousand (2015: RR 13 668 thousand) has been made as internal professional advice has indicated that it is likely that a liability will eventuate.

Tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by tax authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between related companies are determined using actual transaction prices. It is possible, with the evolution of the practical application of the transfer pricing rules, that such prices could be challenged. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the Bank's financial position and/or business activities in general.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 7 285 thousand (2015: RR 23 981 thousand). These tax risks relate to potential additional calculation of income tax on income of foreign entities, which the Bank should have charged as a tax agent when making interest payments to non-resident banks under interest-bearing loans received in previous periods (Notes 19, 20).

These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

Capital expenditure commitments. At 31 December 2016, the Group did not have contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets (2015: nil).

Compliance with covenants. The Group is subject to certain covenants relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a claim on early repayment of the loan.

31 Contingencies and Commitments (Continued)

At 31 December 2016, the Group did not comply with covenants with regard to the open credit risk ratio (impaired loans and advances to customers less provision to the Group's capital). Documentation on a temporary softening of these covenants to the level acceptable for the Group was signed in 2017. However, under the subordinated loan agreement, the breach of this covenant cannot result in an early debt revocation. At 31 December 2015, the Group did not comply with covenants with regard to the risk per borrower / a group of related borrowers and open credit risk ratios which were later agreed with creditors without any penalties.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary 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 cash deposits and, therefore, carry less risk than a direct borrowing.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

In thousands of Russian Roubles	**2016**	**2015**
Guarantees issued	3 002 648	2 965 113
Total guarantees issued	**3 002 648**	**2 965 113**

The total outstanding contractual amount of undrawn contractual guarantees and warranties does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of guarantees was RR 45 287 thousand of commitments at 31 December 2016 (2015: RR 73 561 thousand of commitments). Guarantees denominated in currencies as follows:

In thousands of Russian Roubles	**2016**	**2015**
Russian Roubles	2 845 086	2 908 903
US dollars	144 162	37 511
Euro	13 400	18 699
Total guarantees issued	**3 002 648**	**2 965 113**

The Group has loan commitments of RR 6 988 536 thousand (2015: RR 7 123 193 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		31 December 2016		**31 December 2015**	
(in thousands of Russian Roubles)	**Note**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Loans and advances to customers	9, 16	430 413	295 398	693 079	500 000
Total		**430 413**	**295 398**	**693 079**	**500 000**

At 31 December 2016, balances and deposits "overnight" from other banks balances of RR 96 017 thousand (2015: RR 119 846 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the CBRF of RR 611 606 thousand (2015: RR 411 386 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

32 Foreign Exchange Spot Contracts

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange spot contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

In thousands of Russian Roubles	2016 Contracts with positive fair value	2016 Contracts with negative fair value	2015 Contracts with positive fair value	2015 Contracts with negative fair value
Foreign exchange spot contracts: fair value at the end of the reporting period				
- EUR receivable on settlement (+)	-	-	16 205	-
- RR payable on settlement (-)	-	-	(16 179)	-
Net fair value of foreign exchange spot contracts	**-**	**-**	**26**	**-**

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

33 Fair Value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (1) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (2) Level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (3) Level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies professional judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement (Note 12, 13). The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of Russian Roubles	31 December 2016 Level 1	31 December 2016 Level 2	31 December 2016 Level 3	31 December 2016 Total	31 December 2015 Level 1	31 December 2015 Level 2	31 December 2015 Level 3	31 December 2015 Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Other financial assets								
- Other securities at fair value through profit or loss	-	-	5 997	5 997	-	-	5 997	5 997
- Foreign exchange spot contracts	-	-	-	-	-	26	-	26
NON-FINANCIAL ASSETS								
- Investment in associate	-	-	315 409	315 409	-	-	323 144	323 144
- Investment properties	-	-	2 609 073	2 609 073	-	126 822	-	126 822
- Premises and land (Note 4)	-	-	2 350 186	2 350 186	-	-	2 166 518	2 166 518
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**5 280 665**	**5 280 665**	**-**	**126 848**	**2 495 659**	**2 622 507**

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Russian Roubles	**31 December 2016** Level 1	Level 2	Level 3	Carrying amount
FINANCIAL ASSETS				
Cash and cash equivalents	3 755 481	5 874 200	-	9 629 681
Mandatory cash balances with the Central Bank of the Russian Federation		611 606	-	611 606
Due from other banks	-	6 014 533	-	6 014 533
Loans and advances to customers	-	-	73 696 304	73 380 554
- Loans to small and medium entities	-	-	*26 700 764*	*26 858 965*
- Corporate loans	-	-	*6 925 608*	*6 918 588*
- Loans to individuals – consumer and car loans	-	-	*20 600 045*	*19 997 289*
- Mortgage loans	-	-	*19 469 887*	*19 605 712*
Finance lease receivables	-	-	266 255	266 272
Other financial assets	-	-	554 296	554 296
TOTAL	**3 755 481**	**12 500 339**	**74 516 855**	**90 456 942**

(in thousands of Russian Roubles)	**31 December 2015** Level 1	Level 2	Level 3	Carrying amount
FINANCIAL ASSETS				
Cash and cash equivalents	4 224 184	7 962 593	-	12 186 777
Mandatory cash balances with the Central Bank of the Russian Federation	-	411 386	-	411 386
Due from other banks	-	416 240	-	416 240
Loans and advances to customers	-	-	71 724 557	72 310 896
- Loans to small and medium entities	-	-	*28 530 162*	*28 842 096*
- Corporate loans	-	-	*9 124 014*	*9 155 963*
- Loans to individuals – consumer and car loans	-	-	*20 232 397*	*20 409 566*
- Mortgage loans	-	-	*13 837 984*	*13 903 271*
Finance lease receivables	-	-	360 984	361 190
Other financial assets	-	-	672 028	672 028
TOTAL	**4 224 184**	**8 790 219**	**72 757 569**	**86 358 517**

Mandatory cash balances with the CBRF are classified into the second level in the fair value hierarchy, since they have credit risk other than zero.

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of Russian Roubles	**31 December 2016** Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES				
Due to other banks	-	-	295 407	295 407
Customer accounts	-	-	80 433 365	80 433 365
Debt securities in issue	110 704	-	321 583	427 032
- Promissory notes	-	-	*321 583*	*321 583*
- Bonds issued on domestic market	*110 704*	-	-	*105 449*
Borrowings from international financial institutions	-	-	182 116	182 116
Subordinated debt	-	-	3 077 640	3 077 640
Other financial liabilities	-	-	90 303	90 303
TOTAL	**110 704**	**-**	**84 400 414**	**84 505 863**

33 Fair Value (Continued)

	31 December 2015			
(in thousands of Russian Roubles)	Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES				
Due to other banks		-	630 001	630 001
Customer accounts		-	65 039 828	65 039 828
Debt securities in issue	2 838 114	-	390 341	3 171 560
- Promissory notes	*-*	*-*	*390 341*	*390 341*
- Bonds issued on domestic market	*2 838 114*	*-*	*-*	*2 781 219*
Borrowings from international financial institutions	-	-	6 079 705	6 079 705
Subordinated debt	-	-	3 692 976	3 692 976
Other financial liabilities	-	-	93 503	93 503
TOTAL	**2 838 114**	**-**	**75 926 354**	**78 707 573**

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. These main discount rates are analysed below:

In thousands of Russian Roubles	2016	2015
RR		
Loans and advances to customers		
Loans to small and medium entities	12.9% - 15.1%	14.1% - 16.6%
Corporate loans	12.9% - 13.7%	14.0% - 16.5%
Loans to individuals – consumer loans	14.3% - 15.5%	16.5% - 18.6%
Loans to individuals – car loans	12.0 – 15.3%	12.9% - 16.2%
Loans to individuals - mortgage loans	12.2% - 12.3%	12.9% - 13.1%
Finance lease receivables	18.4% - 22.4%	19.0% - 23.0%
Customer accounts		
Term deposits of individuals	2.0% - 11.3%	2.0% - 15.0%
Term deposits of enterprises	4.0% - 11.3%	5.0% - 20.9%
Borrowings from international financial institutions	10.5%	10.5% - 16.0%
Currency		
Loans and advances to customers		
Corporate loans and loans to SME	4.0% - 7.2%	7.9%
Loans to individuals – consumer loans	10.0%	10.0%
Mortgage loans	9.0%	9.0%
Customer accounts		
Term deposits of individuals	0.1% - 2.5%	1.0% - 4.0%
Borrowings from international financial institutions	-	3.8% - 4.5%
Subordinated debt	7.4%	6.7%

Current rates on the Group's liabilities approximate market rates as they relate to short-term instruments or instruments with floating rates.

The Group’s liabilities to its customers are subject to the state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (1) assets designated as such upon initial recognition, and (2) financial assets held for trading.

As at 31 December 2016 and 31 December 2015, all financial assets were designated as “Loans and receivables” except for foreign exchange spot contracts and other securities at fair value through profit and loss. All Group’s financial liabilities are carried at amortised cost.

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

The Group’s policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

The consolidated financial statements of the Group include the following significant transactions and balances with related parties:

	2016			**2015**		
In thousands of Russian Roubles	**Major shareholders**	**Associate**	**Management Board and Board of Directors**	**Major shareholders**	**Associate**	**Management Board and Board of Directors**
Correspondent accounts with banks	224 311	-	-	4 101 643	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2016: 9.9% - 14.5%; 2015: 9.4% - 12%)	-	131 149	8 050	-	165 676	10 458
Customer accounts (contractual interest rate: 2016: 0.1% - 11.0%; 2015: 0.1% - 12.5%)	-	578	52 050	-	1 354	60 344
Borrowings from international financial institutions (contractual interest rate: 2016: – ; 2015: 15.0% - 16.0%)	-	-	-	921 084	-	-
Subordinated loans (contractual interest rate: 2016: 7.4%; 2015: 6.7%).	3 077 640	-	-	3 692 976	-	-

	2016			**2015**		
In thousands of Russian Roubles	**Major shareholders**	**Associate**	**Management Board and Board of Directors**	**Major shareholders**	**Associate**	**Management Board and Board of Directors**
Interest income	-	20 622	760	-	22 885	633
Interest expense	(321 369)	-	(4 315)	(539 929)	-	(15 474)
Fee and commission income	-	1 096	26	-	582	16
Administrative expenses excluding management remuneration	-	-	(2 991)	-	-	(2 634)

35 Related Party Transactions (Continued)

Major shareholders mean shareholders holding over five percent of the Bank's voting shares. The major shareholders of the Bank at 31 December 2016 and 31 December 2015 are as follows:

	2016		2015	
Shareholder	**Equity share, %**	**Voting rights, %**	**Equity share, %**	**Voting rights, %**
European Bank for Reconstruction and Development	22.80	25.25	22.80	25.25
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	18.65	20.65	18.65	20.65
Vasiliy Vasilievich Vysokov	11.10	12.30	11.10	12.30
Tatiana Nikolaevna Vysokova	10.96	12.13	10.96	12.13
Erste Bank	9.09	9.01	9.09	9.01
Firebird funds	8.22	9.11	8.22	9.11
Rekha Holdings Limited	6.77	7.49	6.77	7.49

Compensation and benefits to members of the Management Board and Board of Directors is presented below:

	2016		2015	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	70 994	-	28 971	-
- Short-term and other bonuses	48 048	-	82 082	-
Long-term bonus scheme	2 758	20 210	(9 038)	17 452
Post-employment benefits	-	-	465	-
Total	**121 800**	**20 210**	**102 480**	**17 452**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Long-term bonuses fall due within three years after their accrual, provided the qualified employees reach the targets set. The liability accrued as at 31 December 2016 falls due in the years 2017, 2018, 2019 and 2020.

In 2016, the Board of Directors consisted of 7 persons (2015: 7 persons). As at the end of 2016, the Group’s Executive Board consisted of 5 persons (2015: 4 persons).

36 Events after the End of the Reporting Period

In February 2017 the Bank repaid the loan received from ResponsAbility amounting to RR 182 million (Note 19).