



CENTER-INVEST BANK GROUP

International Financial Reporting Standards
Consolidated Condensed
Interim Financial Information
(Unaudited)

30 June 2017

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Consolidated Statement of Financial Position – 30 June 2017 (Unaudited)

<i>In thousands of Russian Roubles</i>	<i>Note</i>	30 June 2017	31 December 2016	30 June 2016
ASSETS				
Cash and cash equivalents		8 665 922	9 629 681	9 093 958
Mandatory cash balances with the Central Bank of the Russian Federation		614 095	611 606	452 380
Due from other banks		1 701 631	6 014 533	14 542
Loans and advances to customers	6	79 528 697	73 380 554	76 113 928
Finance lease receivables		257 157	266 272	322 933
Investment in associate		312 054	315 409	324 683
Investment properties		422 971	2 609 073	659 321
Intangible assets		296 124	310 878	275 154
Premises and equipment		2 501 677	2 459 566	2 213 075
Other financial assets		720 623	560 293	790 667
Other assets		489 270	417 824	263 937
Deferred income tax asset		-	-	94 087
TOTAL ASSETS		95 510 221	96 575 689	90 618 665
LIABILITIES				
Due to other banks		-	295 407	567 755
Customer accounts	7	80 718 050	80 433 365	71 305 324
Debt securities in issue	8	370 967	427 032	806 948
Borrowings from international financial institutions		993 202	182 116	3 109 031
Other financial liabilities		96 330	90 303	151 739
Other liabilities		228 453	492 674	641 390
Subordinated debt		1 198 886	3 077 640	3 258 075
Deferred income tax liability		165 309	65 919	-
TOTAL LIABILITIES		83 771 197	85 064 456	79 840 262
EQUITY				
Share capital		1 326 277	1 326 277	1 326 277
Share premium		2 078 860	2 078 860	2 078 860
Revaluation reserve for premises and equipment		1 353 140	1 353 140	1 191 551
Retained earnings		6 980 747	6 752 956	6 181 715
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS		11 739 024	11 511 233	10 778 403
TOTAL LIABILITIES AND EQUITY		95 510 221	96 575 689	90 618 665

24 August 2017


 S. Yu. Smirnov
 Chairman of the Executive Board




 T.I. Ivanova
 Chief Accountant

Consolidated Statement of Profit and Loss and Other Comprehensive Income – 30 June 2017
(Unaudited)

<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2017	Six months ended 30 June 2016	2016
Interest income	9	5 585 855	5 760 954	11 665 819
Interest expense	9	(2 834 840)	(3 330 152)	(6 544 416)
Contributions to the state deposit insurance scheme		(165 362)	(113 552)	(782 734)
Net interest income		2 585 653	2 317 250	4 338 669
Provision for loan portfolio impairment and impairment of finance lease receivables	6	(650 504)	(944 534)	(1 480 661)
Net interest income after impairment provisions		1 935 149	1 372 716	2 858 008
Fee and commission income		629 583	573 855	1 248 400
Fee and commission expense		(184 197)	(190 721)	(401 228)
Gains less losses from trading in foreign currencies		30 787	53 362	81 221
Net result from foreign exchange translation		23 696	2 847	(13 059)
Net result from spot currency transactions and other conversion operations on the interbank market		(11 360)	(32 083)	(15 383)
Other provisions and expenses		(555 686)	(37 206)	(107 045)
Other operating income		35 061	27 681	62 628
Administrative and other operating expenses		(1 223 753)	(1 161 115)	(2 417 681)
Share of result of associate		(3 356)	1 540	(7 735)
Profit before tax		675 924	610 876	1 288 126
Income tax expense		(151 820)	(139 568)	(284 155)
Profit for the period		524 104	471 308	1 003 971
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss:</i>				
Revaluation of land and premises of the Group		-	-	250 190
Income tax recorded directly in other comprehensive income		-	-	(50 038)
Other comprehensive income for the period		-	-	200 152
Total comprehensive income for the period		524 104	471 308	1 204 123

Consolidated Statement of Cash Flow – 30 June 2017 (Unaudited)

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flows from operating activities		
Interest received	5 356 051	5 487 642
Interest paid	(2 951 260)	(3 793 159)
Contributions to the state deposit insurance scheme	(405 201)	(105 294)
Fees and commissions received	624 320	576 769
Fees and commissions paid	(180 670)	(181 776)
Net income received from trading in foreign currencies	30 787	53 362
Net income from spot currency transactions and other conversion operations on the interbank market	(13 524)	(36 103)
Income received from assignment of the rights of claim	63 361	93 295
Repayment of debt written off	21 296	23 156
Other operating income received	34 968	21 050
Staff costs paid	(843 381)	(671 823)
Operating expenses paid	(380 805)	(365 375)
Income tax paid	(1 053)	(271 871)
Cash flows from operating activities before changes in operating assets and liabilities	1 354 889	829 873
Changes in operating assets and liabilities		
Net change in mandatory cash balances with the CBRF	(2 489)	(40 994)
Net change in due from other banks	4 309 710	400 001
Net change in loans and advances to customers	(6 031 326)	(5 848 331)
Net change in finance lease receivables	12 636	30 827
Net change in other financial and other assets	(74 665)	(56 334)
Net change in due to other banks	(295 407)	(49 142)
Net change in customer accounts	362 790	7 125 389
Net change in promissory notes issued	(187 071)	(132 100)
Net change in other financial and other liabilities	57 860	84 494
Net cash (used in)/ from operating activities	(493 073)	2 343 683
Cash flows from investing activities		
Acquisition of premises and equipment	(103 862)	(32 950)
Proceeds from sale of premises and equipment	5 082	245
Acquisition of investment property	(9 989)	-
Proceeds from sale of investment property	772 150	-
Acquisition of intangible assets	(11 004)	(34 030)
Net cash from/(used in) investing activities	652 377	(66 735)
Cash flows from financing activities		
Issue of bonds	214 070	190 121
Repurchase and repayment of bonds	(67 371)	(2 408 417)
Proceeds from borrowings from international financial institutions	1 000 000	-
Repayment of borrowings from international financial institutions	(179 860)	(2 597 408)
Repayment of subordinated debt	(1 688 835)	-
Dividends paid	(296 249)	-
Net cash used in financing activities	(1 018 245)	(4 815 704)
Effect of exchange rate changes on cash and cash equivalents	(104 818)	(554 063)
Net decrease in cash and cash equivalents	(963 759)	(3 092 819)
Cash and cash equivalents as at the beginning of the year	9 629 681	12 186 777
Cash and cash equivalents as at the end of the Period	8 665 922	9 093 958

Consolidated Statement of Changes in Equity – 30 June 2017 (Unaudited)

	Share capital	Share premium	Revaluation reserve for premises and equipment	Retained earnings	Total equity attributable to the equity holders
<i>In thousands of Russian Roubles</i>					
Balance at 1 January 2016	1 326 277	2 078 860	1 192 811	6 005 447	10 603 395
Profit for Six months ended 30 June 2016	-	-	-	471 308	471 308
Total comprehensive income for Six months ended 30 June 2016	-	-	-	471 308	471 308
Dividends declared and paid:					
- ordinary shares	-	-	-	(278 215)	(278 215)
- preference shares	-	-	-	(18 099)	(18 099)
Other movements	-	-	-	14	14
Transfer of revaluation surplus on premises to retained earnings	-	-	(1 260)	1 260	-
Balance at 30 June 2016	1 326 277	2 078 860	1 191 551	6 181 715	10 778 403
Balance at 1 January 2017	1 326 277	2 078 860	1 353 140	6 752 956	11 511 233
Profit for Six months ended 30 June 2017	-	-	-	524 104	524 104
Total comprehensive income for Six months ended 30 June 2017	-	-	-	524 104	524 104
Dividends declared and paid:					
- ordinary shares	-	-	-	(278 214)	(278 214)
- preference shares	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings	-	-	-	-	-
Balance at 30 June 2017	1 326 277	2 078 860	1 353 140	6 980 747	11 739 024

1. Introduction

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the three months ended 30 June 2017 Public Joint-Stock Company Commercial Bank «Center-invest» (the “Bank”) and its 100% subsidiary LLC Center-Leasing (the “Group”).

This consolidated condensed interim financial information has been reviewed, not audited.

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 #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.

At 30 June 2017 the Bank has three (31 December 2016: three, 30 June 2016: seven) branches within the Russian Federation. Additionally, the Bank has representative office in Moscow and 117 (31 December 2016: 119, 30 June 2016: 116) sub-branches in the 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-the Don, Russian Federation, 344000.

The average number of the Group's employees during six months ended 30 June 2017 was 1 456 (2016: 1 446, six months ended 30 June 2016: 1 451).

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

2. Operating Environment of the Group

Russian Federation. The Russian economy continued to recover in the first half of 2017. The economy has adapted to the deteriorated oil and gas market conjuncture and the international sectoral sanctions imposed against the Russian Federation. GDP dynamics returned to the positive zone; according Rosstat GDP growth in the first quarter of 2017 is estimated at 0.5%1 year-on- year and in the second quarter of 2017 – at 2.5%1 year-on-year; while in the first half of 2016 GDP declined by 0.5%1 year-on-year.

International rating agencies improved the outlook for the sovereign credit ratings of the Russian Federation. In February 2017 Moody's agency changed the outlook from "negative" to "stable", keeping the rating at Ba1. In March 2017 Standard & Poor's agency changed the outlook from "stable" to "positive", keeping the rating at BB+. Fitch Ratings agency has affirmed the rating at BBB- and "stable" outlook. In April 2017 Moody's international rating agency upgraded Bank's long-term local- and foreign-currency deposit ratings to Ba3 from B1. The outlook on these ratings remains stable. At the same time, Moody's upgraded the Bank's baseline credit assessment (BCA) to ba3 from b1, affirmed the stable outlook for short-term local- and foreign-currency deposit ratings.

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.

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. Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information has been prepared in accordance with IAS 34 “Interim Financial Reporting” and should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

Except as described below, the accounting policies and methods of computation applied in the preparation of this consolidated condensed interim financial information are consistent with the accounting policies and methods applied in the annual consolidated financial statements of the Group for the year ended 31 December 2016. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the Group’s consolidated financial statements for the year ended 31 December 2015, became effective for the Group from 1 January 2017. They have not significantly affected this consolidated condensed interim financial information of the Group.

Interim period tax measurement. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Foreign currency translation. 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 company’s functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of profit and loss and other comprehensive income.

At 30 June 2017 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 59.0855 and EURO 1 = RR 67.4993 (31 December 2016: USD 1 = RR 60.6569, EURO 1 = RR 63.8111; 30 June 2016: USD 1 = RR 64.2575, EURO 1 = RR 71.2102).

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 losses on loans and advances. 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 and loss and other comprehensive income, the Group makes 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 the actual loss experience compared to the estimated future discounted cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 567 842 thousand (2016: 542 935 thousand, three months ended 30 June 2016: 529 993 thousand).

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. 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 235 040 thousand (31 December 2016: 235 019 thousand, 30 June 2016: 211 165 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 235 040 thousand (31 December 2016: 235 019 thousand, 30 June 2016: 211 165 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 2 648 thousand (31 December 2016: 89 028 thousand, 30 June 2016: 21 600 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 2 648 thousand (31 December 2016: 89 028 thousand, 30 June 2016: 21 600 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.

5. New Accounting Pronouncements

Since the Group published its last annual consolidated financial statements, no new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2017 apart from those disclosed in annual consolidated financial statements of the Group.

6. Loans and Advances to Customers

<i>In thousands of Russian roubles</i>	30 June 2017	31 December 2016	30 June 2016
Loans to small and medium size enterprises (SME loans)	29 970 510	28 758 730	32 387 544
Loans to individuals - consumer loans and car loans	22 785 736	22 009 147	22 116 703
Loans to individuals - mortgage loans	22 509 622	20 371 174	16 781 619
Corporate loans	9 941 250	7 670 857	10 127 996
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	85 207 118	78 809 908	81 413 862
Less provision for impairment of loans and advances to customers	(5 678 421)	(5 429 354)	(5 299 934)
Total loans and advances to customers	79 528 697	73 380 554	76 113 928

Notes to the Consolidated Statement – 30 June 2017 (Unaudited)

Movements in the provision for loan impairment are as follows:

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2017	Six months ended 30 June 2016	2016
Provision for loan impairment as at 1 January	5 429 354	4 602 480	4 602 480
Provision for impairment during the year	674 141	964 808	1 680 725
Recovery of provision on reassigned rights of claim	(20 417)	(16 150)	(340 210)
Amounts written off during the year as uncollectible	(404 657)	(251 204)	(513 641)
Provision for loan impairment as at End of period	5 678 421	5 299 934	5 429 354
Recovery of amounts previously written off as uncollectible	21 296	23 156	199 586

The provision for impairment differs from the amount presented in consolidated statement of other comprehensive income, due to 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.

During three months ended 30 June 2017, the Group assigned its rights to overdue and impaired loans totalling (before impairment provision) to RR 84 067 thousand (2016: RR 645 868 thousand; three months ended 30 June 2016: RR 111 126 thousand).

As at 30 June 2017, the Group's 10 largest borrowers had aggregate loan balances of RR 8 851 639 thousand, or 10.4% of the loan portfolio before impairment (31 December 2016: RR 8 771 017 thousand, or 11.1%; 30 June 2016: RR 8 771 017 thousand, or 11.1%).

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

<i>In thousands of Russian Roubles</i>	30 June 2017		31 December 2016		30 June 2016	
	Сумма	%	Сумма	%	Сумма	%
Individuals (total), incl.	45 295 358	53,2	42 380 321	53,7	38 898 322	47,8
- mortgage loans	22 509 622	26,5	20 371 174	25,8	16 781 619	20,6
- consumer loans	20 542 776	24,1	19 563 284	24,8	19 617 447	24,1
- car loans	2 242 960	2,6	2 445 863	3,1	2 499 256	3,1
Agriculture	11 809 656	13,9	9 738 931	12,4	11 722 265	14,4
Trade	11 204 153	13,1	10 682 973	13,6	11 300 403	13,9
Manufacturing	7 279 405	8,5	8 113 915	10,3	9 720 584	11,9
Transport	4 278 807	5,0	3 036 650	3,8	4 585 754	5,7
Construction	1 694 360	2,0	1 471 688	1,9	1 946 808	2,4
Other	3 645 379	4,3	3 385 430	4,3	3 239 726	3,9
Total loans and advances to customers (before impairment)	85 207 118	100,0	78 809 908	100,0	81 413 862	100,0

Carrying value of each class of loans and advances to customers approximates their fair value at 30 June 2017, 31 December 2016 and 30 June 2016. Refer to Note 15. Information on related party balances and transactions is disclosed in Note 16.

7. Customer Accounts

<i>In thousands of Russian roubles</i>	30 June 2017	31 December 2016	30 June 2016
<i>State and public organisations</i>			
- Current/settlement accounts	116 796	51 379	401 855
- Term deposits	15	17 086	19 068
<i>Other legal entities</i>			
- Current/settlement accounts	11 707 100	12 006 755	9 653 646
- Term deposits	2 086 891	2 397 579	2 732 222
<i>Individuals</i>			
- Current/demand accounts	5 640 913	5 708 786	4 837 356
- Term deposits	61 166 335	60 251 780	53 661 177
Total customer accounts	80 718 050	80 433 365	71 305 324

At 30 June 2017 the total aggregate balance of 10 largest clients of the Group was RR 2 184 980 thousand or 2.7% of customer accounts (31 December 2016: RR 2 192 236 thousand, or 2.7%; 30 June 2016: RR 2 167 058 thousand or 3.0%).

Carrying value of each class of customer accounts approximates fair value at 30 June 2017, 31 December 2016 and 30 June 2016. Refer to Note 15. Information on related party balances is disclosed in Note 16.

8. Debt Securities in Issue

<i>In thousands of Russian roubles</i>	30 June 2017	31 December 2016	30 June 2016
Bonds	253 161	105 449	553 356
Promissory notes	117 806	321 583	253 592
Total debt securities in issue	370 967	427 032	806 948

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

Carrying value of each class of debt securities in issue approximates fair value at 30 June 2017, 31 December 2016 and 30 June 2016. Refer to Note 15.

9. Interest Income and Expense

<i>In thousands of Russian roubles</i>	Six months ended 30 June 2017	Six months ended 30 June 2016	2016
Interest income			
Loans and advances to individuals	3 040 209	2 803 771	5 820 529
Loans and advances to enterprises	2 373 864	2 864 308	5 505 317
Short-term deposits with the Central Bank of the Russian Federation, amounts due from and accounts with other banks	145 057	56 684	275 685
Finance income arising from leasing	26 725	36 191	64 288
Итого процентных доходов	5 585 855	5 760 954	11 665 819
Interest expense			
Term deposits of individuals	2 617 758	2 625 530	5 405 306
Borrowings from international financial institutions, subordinated debt and other banks	93 762	323 299	582 508
Term deposits of legal entities	70 630	130 910	237 639
Current accounts of legal entities	37 749	42 072	71 450
Bonds issued	10 622	194 761	221 129
Promissory notes issued	4 319	13 580	26 363
Total interest expense	2 834 840	3 330 152	6 544 416
Contributions to the state deposit insurance scheme	(165 362)	(113 552)	(782 734)
Net interest income	2 585 653	2 317 250	4 338 669

10. Dividends

<i>In thousands of Russian Roubles</i>	30 June 2017		30 June 2016	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends for previous year declared during the period	278 215	18 099	278 215	18 099
Dividends paid during the period	(278 215)	(18 034)	-	-
Other movements	-	-	-	(14)
Dividends payable	-	65	278 215	18 085

In June 2017, the Bank declared dividends on preference shares with a par value of RR 1 000 – RR 200 per share (2016: RR 200 per share) and on preference shares with a par value of RR 4 – RR 0.8 per share (2016: RR 0.8 per share). In June 2017 the Bank declared dividends on ordinary shares – RR 3.3 per share (2016: the Bank did not declare dividends on ordinary shares). Repayment of the principal portion of the dividend for 2016 was made in June 2016 (for 2015: made in July 2016). All dividends were declared and paid in Russian Roubles. A part of declared dividends was not claimed.

11. 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.

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 in accordance with the requirements of Bank of Russia, 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 30 June 2017 is set out below:

<i>In thousands of Russian Roubles</i>	Lending	Treasury	Retail banking	Total
Six months ended 30 June 2017				
<i>External revenues:</i>				
Interest income	5 065 647	145 057	55 116	5 265 820
Fee and commission income and other operating income	214 518	329 155	331 976	875 649
Total revenues	5 280 165	474 212	387 092	6 141 469
Interest expense	-	(215 690)	(2 657 184)	(2 872 874)
Provision for impairment	(1 045 797)	1 715	(892)	(1 044 974)
Fee and commission expenses and other expenses	(23 731)	(45 907)	(98 330)	(167 968)
Segment result	4 210 637	214 330	(2 369 314)	2 055 653
Total reportable segment assets	78 600 456	1 915 265	-	80 515 721
Total reportable segment liabilities	-	(13 110 739)	(69 784 144)	(82 894 883)

Segment information for the reportable segments for the year ended 30 June 2016 is set out below:

<i>In thousands of Russian Roubles</i>	Lending	Treasury	Retail banking	Total
Six months ended 30 June 2016				
<i>External revenues:</i>				
Interest income	5 248 121	56 684	66 303	5 371 108
Fee and commission income and other operating income	237 971	288 355	322 479	848 805
Total revenues	5 486 092	345 039	388 782	6 219 913
Interest expense	-	(688 241)	(2 665 878)	(3 354 119)
Provision for impairment	(871 486)	5 187	(570)	(866 869)
Fee and commission expenses and other expenses	(26 428)	(49 451)	(94 180)	(170 059)
Losses less gains from foreign currencies	-	(15 358)	-	(15 358)
Segment result	4 588 178	(402 824)	(2 371 846)	1 813 508
Total reportable segment assets	76 638 994	333 473	-	76 972 467
Total reportable segment liabilities	-	(17 542 021)	(60 925 893)	(78 467 914)

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

<i>(в тысячах российских рублей)</i>	Lending	Treasury	Retail banking	Total
2016				
<i>External revenues:</i>				
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)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2017	Six months ended 30 June 2016	2016
Total revenues for reportable segments	6 141 469	6 219 913	12 898 268
Accrual method application to fee and commission income	4 030	11 247	25 569
Fair value of trading securities portfolio recalculation	(904)	(2 800)	7 262
Recognition of interest income on impaired loans	164 485	223 378	361 346
Foreign exchange translation gains less losses	(23 696)	(2 847)	13 059
Losses less gains from conversion operations on the interbank market	13 524	36 103	15 550
Repayment of debt written off	(21 296)	(23 156)	(199 586)
Consolidation effect	4 207	3 781	(154)
Other	(533)	(49 767)	(63 246)
Total consolidated revenues	6 281 286	6 415 852	13 058 068

Total consolidated revenues comprise interest income, fee and commission income and other income.

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2017	Six months ended 30 June 2016	2016
Total reportable segment result	2 055 653	1 813 508	3 588 344
Administrative expenses	(1 649 826)	(1 257 267)	(2 915 150)
Effective interest method application	3 415	(6 402)	(4 019)
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	1 260	1 220	37 979
Recognition of interest income on impaired loans	164 485	223 378	361 346
Recalculation of provision for impairment	271 056	(64 115)	626 957
Consolidation effect	(2 443)	(2 327)	(12 156)
Events after the end of the reporting period	(116 133)	(87 582)	(333 777)
Amortisation recalculation	15 177	12 709	21 980
Other	(66 720)	(22 246)	(83 378)
Profit before tax	675 924	610 876	1 288 126

<i>In thousands of Russian Roubles</i>	30 June 2017	30 June 2016	31 December 2016
Total reportable segment assets	80 515 721	76 972 467	79 206 267
Unallocated assets	13 798 293	13 799 549	16 653 625
Recalculation of provision for impairment	204 732	(990 687)	(233 850)
Recognition of interest income on impaired loans	1 112 769	932 424	1 028 661
Application of effective interest rate method to fee and commission income	(236 177)	(254 109)	(239 456)
Finance lease adjustments	(35 709)	(75 273)	(60 046)
Consolidation effect	269 783	266 621	266 056
Other	(119 191)	(32 327)	(45 568)
Total consolidated assets	95 510 221	90 618 665	96 575 689

<i>In thousands of Russian Roubles</i>	30 June 2017	30 June 2016	31 December 2016
Total reportable segment liabilities	82 894 883	78 467 914	83 953 994
Unallocated liabilities	1 030 271	1 442 098	1 252 537
Application of effective interest rate method to fee and commission expenses	(14 220)	(18 824)	(6 885)
Consolidation effect	(139 737)	(51 316)	(135 224)
Other	-	390	34
Total consolidated liabilities	83 771 197	79 840 262	85 064 456

Major customers

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

12. 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. Policies and processes for managing financial risks remain unchanged from those disclosed in annual consolidated financial statements for the year ended 31 December 2016.

The currency position of the Group as at 30 June 2017 is set out below:

<i>In thousands of Russian Roubles</i>	Russian Roubles	US Dollars	Euro	Others	Total
Assets					
Cash and cash equivalents	6 166 148	1 437 066	1 008 507	54 201	8 665 922
Mandatory cash balances with the CBRF	614 095	-	-	-	614 095
Due from other banks	1 690 831	-	10 800	-	1 701 631
Loans and advances to customers	76 875 945	2 652 544	208	-	79 528 697
Finance lease receivables	257 157	-	-	-	257 157
Other financial assets	712 972	5 175	312	-	718 459
Total financial assets	86 317 148	4 094 785	1 019 827	54 201	91 485 961
Other assets	4 022 096				4 022 096
Total assets	90 339 244	4 094 785	1 019 827	54 201	95 508 057
Liabilities					
Customer accounts	77 487 880	2 178 536	1 024 784	26 850	80 718 050
Debt securities in issue	319 740	51 227	-	-	370 967
Borrowings from international financial institutions	993 202	-	-	-	993 202
Other financial liabilities	94 595	1 462	273	-	96 330
Subordinated debt	-	1 198 886	-	-	1 198 886
Total financial liabilities	78 895 417	3 430 111	1 025 057	26 850	83 377 435
Other liabilities	393 762				393 762
Total liabilities	79 289 179	3 430 111	1 025 057	26 850	83 771 197
Spot contracts	680 975	(693 125)	14 314	-	2 164
Net open currency position	11 731 040	(28 451)	9 084	27 351	11 739 024
Credit related commitments	2 872 046	164 711	29 700	-	3 066 457

The currency position of the Group as at 31 December 2016 is set out below:

<i>In thousands of Russian Roubles</i>	Russian Roubles	US Dollars	Euro	Others	Total
Assets					
Cash and cash equivalents	5 625 741	2 899 815	1 049 034	55 091	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	70 788 541	2 560 326	31 687	-	73 380 554
Finance lease receivables	266 272	-	-	-	266 272
Other financial assets	552 878	7 280	135	-	560 293
Total financial assets	83 849 361	5 467 421	1 091 066	55 091	90 462 939
Other assets	6 112 750				6 112 750
Total assets	89 962 111	5 467 421	1 091 066	55 091	96 575 689
Liabilities					
Due to other banks	295 407	-	-	-	295 407
Customer accounts	77 025 562	2 299 491	1 074 012	34 300	80 433 365
Debt securities in issue	374 442	52 590	-	-	427 032
Borrowings from international financial institutions	182 116	-	-	-	182 116
Other financial liabilities	85 315	2 681	2 307	-	90 303
Subordinated debt	-	3 077 640	-	-	3 077 640
Total financial liabilities	77 962 842	5 432 402	1 076 319	34 300	84 505 863
Other liabilities	558 593				558 593
Total liabilities	78 521 435	5 432 402	1 076 319	34 300	85 064 456
Spot contracts	-	-	-	-	-
Net open currency position	11 440 676	35 019	14 747	20 791	11 511 233
Credit related commitments	2 845 086	144 162	13 400	-	3 002 648

The currency position of the Group as at 30 June 2016 is set out below:

<i>In thousands of Russian Roubles</i>	Russian Roubles	US Dollars	Euro	Others	Total
Assets					
Cash and cash equivalents	5 516 460	636 609	2 871 426	69 463	9 093 958
Mandatory cash balances with the CBRF	452 380	-	-	-	452 380
Due from other banks	300	-	14 242	-	14 542
Loans and advances to customers	71 779 142	4 299 214	35 572	-	76 113 928
Finance lease receivables	322 933	-	-	-	322 933
Other financial assets	778 448	8 073	100	-	786 621
Total financial assets	78 849 663	4 943 896	2 921 340	69 463	86 784 362
Other assets	3 830 257				3 830 257
Total assets	82 679 920	4 943 896	2 921 340	69 463	90 614 619
Liabilities					
Due to other banks	567 755	-	-	-	567 755
Customer accounts	68 041 566	2 215 035	1 023 389	25 334	71 305 324
Debt securities in issue	806 948	-	-	-	806 948
Borrowings from international financial institutions	814 536	-	2 294 495	-	3 109 031
Other financial liabilities	-	3 258 075	-	-	3 258 075
Subordinated debt	148 623	3 020	96	-	151 739
Total financial liabilities	70 379 428	5 476 130	3 317 980	25 334	79 198 872
Other liabilities	641 390	-	-	-	641 390
Total liabilities	71 020 818	5 476 130	3 317 980	25 334	79 840 262
Spot contracts	(1 008 719)	577 191	435 574	-	4 046
Net open currency position	10 650 383	44 957	38 934	44 129	10 778 403
Credit related commitments	2 959 179	139 739	15 170	-	3 114 088

The liquidity position of the Group as at 30 June 2017 is set out below:

	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 stated maturity	Total
<i>In thousands of Russian Roubles</i>								
Assets								
Cash and cash equivalents	8 665 922	-	-	-	-	-	-	8 665 922
Mandatory cash balances with the Central Bank of the Russian Federation	614 095	-	-	-	-	-	-	614 095
Due from other banks	1 701 631	-	-	-	-	-	-	1 701 631
Loans and advances to customers	2 273 355	4 840 928	8 561 088	12 006 631	35 125 108	16 721 587	-	79 528 697
Finance lease receivables	20 153	33 454	42 700	60 011	100 839	-	-	257 157
Investments in associate	-	-	-	-	-	-	312 054	312 054
Investment properties	-	-	-	-	296 149	-	126 822	422 971
Intangible assets	-	-	-	-	-	-	296 124	296 124
Premises and equipment	-	-	-	-	-	-	2 501 677	2 501 677
Other financial assets	186 151	117 359	887	95 461	314 768	-	5 997	720 623
Other assets	7 445	31 114	43 638	78 362	328 711	-	-	489 270
Total assets	13 468 752	5 022 855	8 648 313	12 240 465	36 165 575	16 721 587	3 242 674	95 510 221
Liabilities								
Customer accounts	18 553 806	1 601 586	2 186 867	14 439 153	43 936 638	-	-	80 718 050
Debt securities in issue	100 511	-	8 656	261 278	522	-	-	370 967
Borrowings from international financial institutions	-	-	3 101	200 000	790 101	-	-	993 202
Subordinated debt	-	-	17 757	0	1 181 129	-	-	1 198 886
Other financial liabilities	47 181	5 125	1 896	23 059	19 069	-	-	96 330
Deferred income tax liability	-	-	-	-	-	-	165 309	165 309
Other liabilities	169 161	14 752	84	17 169	27 287	-	-	228 453
Total liabilities	18 870 659	1 621 463	2 218 361	14 940 659	45 954 746	-	165 309	83 771 197
Net liquidity gap at 30 June 2017	(5 401 907)	3 401 392	6 429 952	(2 700 194)	(9 789 171)	16 721 587	3 077 365	11 739 024
Cumulative liquidity gap as at 30 June 2017	(5 401 907)	(2 000 515)	4 429 437	1 729 243	(8 059 928)	8 661 659	11 739 024	
Cumulative liquidity gap as at 30 June 2017 (30% of customer accounts are permanent)	164 235	4 046 103	11 132 115	12 763 667	16 155 487	32 877 074	11 739 024	

The liquidity position of the Group as at 31 December 2016 is set out below:

	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 stated maturity	Total
<i>In thousands of Russian Roubles</i>								
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	
Cumulative liquidity gap as at 31 December 2016 (30% of customer accounts are permanent)	5 148 303	8 155 662	9 999 040	21 727 042	17 623 138	32 488 490	11 511 233	

Notes to the Consolidated Statement – 30 June 2017 (Unaudited)

The liquidity position of the Group as at 30 June 2016 is set out below:

	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 stated maturity	Total
<i>In thousands of Russian Roubles</i>								
Assets								
Cash and cash equivalents	9 093 958	-	-	-	-	-	-	9 093 958
Mandatory cash balances with the Central Bank of the Russian Federation	452 380	-	-	-	-	-	-	452 380
Due from other banks	300	14 242	-	-	-	-	-	14 542
Loans and advances to customers	3 065 418	5 367 226	9 064 689	13 011 464	32 884 175	12 720 956	-	76 113 928
Finance lease receivables	20 932	38 067	52 766	77 209	133 959	-	-	322 933
Investments in associate	-	-	-	-	-	-	324 683	324 683
Investment properties	-	-	-	-	-	-	659 321	659 321
Intangible assets	-	-	-	-	-	-	275 154	275 154
Premises and equipment	-	-	-	-	-	-	2 213 075	2 213 075
Other financial assets	380 343	61 387	1 361	204 253	137 326	-	5 997	790 667
Other assets	35 791	24 504	22 166	55 537	125 939	-	-	263 937
Deferred income tax asset	-	-	-	-	-	-	94 087	94 087
Total assets	13 049 122	5 505 426	9 140 982	13 348 463	33 281 399	12 720 956	3 572 317	90 618 665
Liabilities								
Due to other banks	9	-	41 666	249 995	276 085	-	-	567 755
Customer accounts	15 915 584	1 461 720	1 962 099	3 024 970	48 940 951	-	-	71 305 324
Debt securities in issue	22 362	-	636 917	139 212	8 457	-	-	806 948
Borrowings from international financial institutions	-	242 408	629 588	718 731	1 518 304	-	-	3 109 031
Subordinated debt	-	-	47 813	-	3 210 262	-	-	3 258 075
Other financial liabilities	93 056	6 907	3 859	19 761	28 156	-	-	151 739
Other liabilities	510 379	93 712	6	16 413	20 880	-	-	641 390
Total liabilities	16 541 390	1 804 747	3 321 948	4 169 082	54 003 095	-	-	79 840 262
Net liquidity gap at 30 June 2016	(3 492 268)	3 700 679	5 819 034	9 179 381	(20 721 696)	12 720 956	3 572 317	10 778 403
Cumulative liquidity gap as at 30 June 2016	(3 492 268)	208 411	6 027 445	15 206 826	(5 514 870)	7 206 086	10 778 403	
Cumulative liquidity gap as at 30 June 2016 (30% of customer accounts are permanent)	1 282 407	5 421 602	11 829 266	21 916 138	15 876 727	28 597 683	10 778 403	

13. Analysis of Risk-based Capital

The composition of the Group's capital calculated in accordance with the Basel Accord is as follows:

<i>In thousands of Russian Roubles</i>	30 June 2017	31 December 2016	30 June 2016
<i>Tier 1 capital</i>			
Share capital	1 326 277	1 326 277	1 326 277
Share premium	2 078 860	2 078 860	2 078 860
Retained Earnings	6 980 747	6 752 956	6 181 715
Total tier 1 capital	10 385 884	10 158 093	9 586 852
<i>Tier 2 capital</i>			
Revaluation reserve for premises and equipment	1 353 140	1 353 140	1 191 551
Subordinated debt	305 275	1 086 769	1 472 568
Total tier 2 capital	1 658 415	2 439 909	2 664 119
Total capital	12 044 299	12 598 002	12 250 971
Risk-Weighted Assets	77 236 539	74 323 413	76 844 842
Capital Adequacy Ratio	15,6%	17,0%	15,9%

14. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 30 June 2017, the Group was engaged in litigation proceedings in relation to claims from borrowers and leases. A provision of RR 12 184 thousand (31 December 2016: 10 766 thousand; 30 June 2016: 15 923 thousand) has been made as internal professional advice has indicated that it is likely that a liability will eventuate.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, 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.

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. Outstanding credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	30 June 2017	31 December 2016	30 June 2016
Guarantees issued total, including:	3 066 456	3 002 648	3 114 089
- Russian rubles	2 872 045	2 845 086	2 959 180
- US dollars	164 711	144 162	139 739
- Euro	29 700	13 400	15 170

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 46 191 thousand at 30 June 2017 (31 December 2016: 45 287 thousand; 30 June 2016: 76 361 thousand).

The Group has loan commitments of RR 5 677 706 thousand (31 December 2016: 6 988 536 thousand; 30 June 2016: 5 947 150 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:

<i>In thousands of Russian Roubles</i>	30 June 2017		31 December 2016		30 June 2016	
	Asset pledged	Related liability	Asset pledged	Related liability	Asset pledged	Related liability
Loans and advances to customers	-	-	430 413	295 398	558 141	567 747

At 30 June 2017 due from other banks balances in the amount of RR 101 927 thousand (31 December 2016: RR 96 017 thousand, 30 June 2016: RR 107 115 thousand) are placed as a cover for international payment cards transactions. Also, mandatory cash balances with the CB RF in the amount of RR 614 095 thousand (31 December 2016: RR 611 606 thousand, 30 June 2016: RR 452 380 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations.

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.

At 30 June 2017 Group did not comply with covenants for the capital adequacy ratio R1. 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.

15. 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. 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	30 June 2017			
	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Other financial assets				
- Other securities at fair value through profit or loss	-	-	5 997	5 997
- Foreign exchange spot contracts	-	2 164	-	2 164
NON-FINANCIAL ASSETS				
- Investment in associate	-	-	312 054	312 054
- Investment properties	-	-	422 971	422 971
- Premises and land	-	-	2 350 403	2 350 403
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS				
	-	2 164	3 091 425	3 093 589

<i>In thousands of Russian Roubles</i>	31 December 2016			
	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Other financial assets				
- Other securities at fair value through profit or loss	-	-	5 997	5 997
- Foreign exchange spot contracts	-	-	-	-
NON-FINANCIAL ASSETS				
- Investment in associate	-	-	315 409	315 409
- Investment properties	-	-	2 609 073	2 609 073
- Premises and land	-	-	2 350 186	2 350 186
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	-	5 280 665	5 280 665

<i>In thousands of Russian Roubles</i>	30 June 2016			
	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Other financial assets				
- Other securities at fair value through profit or loss	-	-	5 997	5 997
- Foreign exchange spot contracts	-	4 046	-	4 046
NON-FINANCIAL ASSETS				
- Investment in associate	-	-	324 683	324 683
- Investment properties	-	659 321	-	659 321
- Premises and land	-	-	2 111 654	2 111 654
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	663 367	2 442 334	3 105 701

(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:

<i>In thousands of Russian Roubles</i>	30 June 2017			
	Level 1	Level 2	Level 3	Carrying amount
FINANCIAL ASSETS				
Cash and cash equivalents	4 139 973	4 525 949	-	8 665 922
Mandatory cash balances with the Central Bank of the Russian Federation	-	614 095	-	614 095
Due from other banks	-	1 701 631	-	1 701 631
Loans and advances to customers	-	-	79 774 383	79 528 696
- Loans to small and medium entities	-	-	27 868 753	28 021 102
- Corporate loans	-	-	9 165 575	9 125 163
- Loans to individuals – consumer and car loans	-	-	21 214 687	20 667 035
- Mortgage loans	-	-	21 525 368	21 715 396
Finance lease receivables	-	-	258 883	257 157
Other financial assets	-	-	712 462	712 462
TOTAL	4 139 973	6 841 675	80 745 728	91 479 963

<i>In thousands of Russian Roubles</i>	31 December 2016			Carrying amount
	Level 1	Level 2	Level 3	
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
- <i>Loans to small and medium entities</i>	-	-	26 700 764	26 858 965
- <i>Corporate loans</i>	-	-	6 925 608	6 918 588
- <i>Loans to individuals – consumer and car loans</i>	-	-	20 600 045	19 997 289
- <i>Mortgage loans</i>	-	-	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

<i>In thousands of Russian Roubles</i>	30 June 2016			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL ASSETS				
Cash and cash equivalents	4 542 597	4 551 361	-	9 093 958
Mandatory cash balances with the Central Bank of the Russian Federation		452 380	-	452 380
Due from other banks	-	14 542	-	14 542
Loans and advances to customers	-	-	75 563 526	76 113 928
- <i>Loans to small and medium entities</i>	-	-	30 127 958	30 436 373
- <i>Corporate loans</i>	-	-	9 339 636	9 457 587
- <i>Loans to individuals – consumer and car loans</i>	-	-	20 029 436	20 143 021
- <i>Mortgage loans</i>	-	-	16 066 496	16 076 947
Finance lease receivables	-	-	363 723	322 933
Other financial assets	-	-	780 624	780 624
TOTAL	4 542 597	5 018 283	76 707 873	86 778 365

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

<i>In thousands of Russian Roubles</i>	30 June 2017			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL LIABILITIES				
Customer accounts	-	-	80 718 050	80 718 050
Debt securities in issue	256 615	-	117 806	370 967
- <i>Promissory notes</i>	-	-	117 806	117 806
- <i>Bonds issued on domestic market</i>	256 615	-	-	253 161
Borrowings from international financial institutions	-	-	993 202	993 202
Subordinated debt	-	-	1 198 886	1 198 886
Other financial liabilities	-	-	96 330	96 330
TOTAL	256 615	-	83 124 274	83 377 435

Notes to the Consolidated Statement – 30 June 2017 (Unaudited)

<i>In thousands of Russian Roubles</i>	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
- <i>Promissory notes</i>	-	-	321 583	321 583
- <i>Bonds issued on domestic market</i>	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

<i>In thousands of Russian Roubles</i>	30 June 2016			
	Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES				
Due to other banks	-	-	567 755	567 755
Customer accounts	-	-	71 305 324	71 305 324
Debt securities in issue	563 075	-	253 592	806 948
- <i>Promissory notes</i>	-	-	253 592	253 592
- <i>Bonds issued on domestic market</i>	563 075	-	-	553 356
Borrowings from international financial institutions	-	-	3 109 031	3 109 031
Subordinated debt	-	-	3 258 075	3 258 075
Other financial liabilities	-	-	151 739	151 739
TOTAL	563 075	-	78 645 516	79 198 872

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

<i>In thousands of Russian Roubles</i>	30 June 2017	31 December 2016	30 June 2016
RR			
<i>Loans and advances to customers</i>			
Loans to small and medium entities	12,8 – 14,2%	12,9 – 15,1%	14,5 – 15,4%
Corporate loans	11,3 – 13,5%	12,6 – 13,7%	14,4 – 16,2%
Loans to individuals – consumer loans	13,5 – 14,5%	14,3 – 15,5%	15,8 – 18,7%
Loans to individuals – car loans	11,7 – 14,6%	12,0 – 15,3%	11,4 – 16,1%
Loans to individuals - mortgage loans	10,6 – 11,5%	12,2 – 12,3%	12,1 – 12,3%
<i>Finance lease receivables</i>	16,2 - 22,9%	18,4 - 22,4%	17,2 - 22,8%
<i>Customer accounts</i>			
Term deposits of individuals	2,0 – 10,5%	2,0 – 11,3%	2,0 – 12,5%
Term deposits of enterprises	4,0 – 11,1%	4,0 – 11,3%	4,0 – 13,0%
<i>Borrowings from international financial institutions</i>	10,2%	10,5%	10,5 - 15,1%
Currency			
<i>Loans and advances to customers</i>			
Corporate loans and loans to SME	4,0 – 7,4%	4,0 – 7,2%	6,5 – 9,0%
Loans to individuals – consumer loans	10,0%	10,0%	10,0%
Mortgage loans	4,0%	9,0%	9,0%
<i>Customer accounts</i>			
Term deposits of individuals	0,1 – 2,0%	0,1 – 2,5%	1,0 – 4,0%
<i>Borrowings from international financial institutions</i>	-	-	3,8%
<i>Subordinated debt</i>	7,4%	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 state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

16. 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:

	30 June 2017		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Correspondent accounts with banks	320 400	-	-
Gross amount of loans and advances to customers (contractual interest rate: 10.0% – 13.5%)	-	76 787	6 633
Customer accounts (contractual interest rate: 0.1% – 11.0%)	-	558	89 134
Subordinated loans (contractual interest rate: 7.4%)	1 198 886	-	-
	30 June 2016		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Correspondent accounts with banks	1 775 667	-	-
Gross amount of loans and advances to customers (contractual interest rate: 9.9% – 16.0%)	-	137 018	7 299
Customer accounts (contractual interest rate: 0.1% – 12.5%)	-	635	72 086
Borrowings from international financial institutions (contractual interest rate: 15.1%)	318 294	-	-
Subordinated loans (contractual interest rate: 6.7%)	3 258 075	-	-
	31 December 2016		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Correspondent accounts with banks	224 311	-	-
Gross amount of loans and advances to customers (contractual interest rate: 9.9% – 14.5%)	-	131 149	8 050
Customer accounts (contractual interest rate: 0.1% – 11.0%)	-	578	52 050
Subordinated loans (contractual interest rate: 7.4%)	3 077 640	-	-
	Six months ended 30 June 2017		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Interest income	-	4 172	187
Interest expense	(54 174)	-	(923)
Fee and commission income	-	333	4
Administrative expenses excluding management remuneration	-	-	(876)

	Six months ended 30 June 2016		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Interest income	-	11 192	506
Interest expense	(173 625)	-	(2 251)
Fee and commission income	-	569	15
Administrative expenses excluding management remuneration	-	-	(2 634)

	2016		
	Significant shareholders	Associate	Management and Board of Directors
<i>In thousands of Russian Roubles</i>			
Interest income	-	20 622	760
Interest expense	(321 369)	-	(4 315)
Fee and commission income	-	1 096	26
Administrative expenses excluding management remuneration	-	-	(2 991)

In April 2017 the Bank repaid ahead of schedule the Subordinated loan from Deutsche Investitions - und Entwicklungsgesellschaft mbH amounting to USD 30 million.

Major shareholders mean shareholders holding over five percent of the Bank's voting shares. The major shareholders of the Bank are as follows:

Shareholder	31 марта 2017		31 декабря 2016		31 марта 2016	
	Equity share, %	Voting rights, %	Equity share, %	Voting rights, %	Equity share, %	Voting rights, %
European Bank for Reconstruction and Development	22,80	25,25	22,80	25,25	22,80	25,25
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	18,65	20,65	18,65	20,65	18,65	20,65
Vasily Vasilievich Vysokov	11,10	12,30	11,10	12,30	11,10	12,30
Tatiana Nikolaevna Vysokova	10,96	12,13	10,96	12,13	10,96	12,13
Erste Bank	9,09	9,01	9,09	9,01	9,09	9,01
Firebird funds	8,22	9,11	8,22	9,11	8,22	9,11
Rekha Holdings Limited	6,77	7,49	6,77	7,49	6,77	7,49

Key management compensation is presented below:

	Six months ended 30 June 2017		Six months ended 30 June 2017		2016	
	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
<i>In thousands of Russian Roubles</i>						
<i>Short-term benefits:</i>						
- Salaries	14 803	-	54 448	-	70 994	-
- Short-term and other bonuses	58 105	-	240	-	48 048	-
<i>Long-term bonus scheme</i>	979	21 189	3 779	21 231	2 758	20 210
Total	73 887	21 189	58 467	21 231	121 800	20 210

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

In 2017, the Board of Directors consisted of 7 persons (2016: 7 persons). As at 30 June 2017, the Group's Executive Board consisted of 5 persons (31 December 2016: 5 persons; 30 June 2016: 4 persons).