**Commercial Bank Garant-Invest**

**(Joint Stock Company)**

**Financial Statements**

**for the year ended**

**31 December 2016**

Contents

Исх. N 770 от 28.04.17

# INDEPENDENT AUDITOR'S REPORT

To shareholders of CB Garant-Invest (JSC)

## AUDITEE

**Name:** Commercial bank Garant-Invest (Joint Stock Company) ([CB Garant-Invest (JSC)])

**State registration number:** 1037739429320

**Location:** 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

## AUDITOR

**Name:** Limited Liability Company FinExpertiza (OOO FinExpertiza);

**State registration number:** 1027739127734

**Location:** Russian Federation, 129090, Moscow, Olimpiyskiy Prospekt, 14

**Self-regulating organization of auditors:** Self-regulating organization of auditors Russian Union of Auditors (Association) (certificate of 01 December 2016)

**Registration number in the audit firms register (ORNZ):** 11603076287

We have audited the accompanying financial statements of Commercial Bank Garant-Invest (Joint Stock Company) (hereinafter referred to as the "Bank") which comprise as follows:

Statement of Financial Position as at 31 December 2016;
Income Statement for the year ended 31 December 2016;
Statement of Comprehensive Income for the year ended 31 December 2016;
Statement of Changes in Equity for the year ended 31 December 2016;
Statement of Cash Flows for the year ended 31 December 2016;
Summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with National Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management of the Bank, as well as evaluating the overall presentation of the financial statements.

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

### Auditor's Opinion

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

## REPORT ON AUDIT IN ACCORDANCE WITH THE REQUIREMENTS OF FEDERAL LAW OF 2 DECEMBER 1990 NO 395-1 *BANKS AND BANKING ACTIVITIES*

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

We have audited the following in the course of the audit of the year-end financial statements of the Bank for 2016 in accordance with Art. 42 of Federal Law of 02 December 1990 No-395-1 *Banks and Banking Activities*:

- Compliance by the Bank with the mandatory ratios set by the Bank of Russia as at 01 January 2017;
- Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russian to such systems.

The audit was limited by selected audit procedures based on our judgement as inquiries, analysis and study of documents, comparing the Bank's approved requirements, policies and procedures with the requirements of the Bank of Russia and recalculation and reconciliation of figures and other information. We performed these procedures with the purpose to form an opinion with regard to the matters subject to audit under Art. 42 of Federal Law of 02 December 1990 No 395-1 *Banks and Banking Activities*.

Our audit resulted in the findings as follows:

1. Bank's compliance with the statutory ratios set by the Bank of Russia:

   The Bank's statutory ratios as at 01 January 2017 were within the limits set by the Bank of Russia.

   We have not performed any procedures with regard to the accounting records of the Bank except for those which we considered appropriate with the purposes to form an opinion whether the year-end financial statements present fairly in all material respects its financial position as at 01 January 2017, financial performance and cash flows for 2016 in accordance with the Russian financial reporting standards for credit organizations.

2. Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russian to such systems:

   a) in accordance with the requirements and recommendations of the Bank of Russia as at 31 December 2016, the Bank's internal audit service is subordinated to and reports to the Bank's Board of Directors, the Bank's risk management departments were not subordinated to and do not report to the departments that take correspondent risks. Heads of the internal audit service and risk management departments of the Bank qualify for the competence requirements set by the Bank of Russia;

   b) the Bank's internal documents as at 31 December 2016 that set out the procedures to identify and manage significant risks for the Bank such as credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as stress testing procedures have been approved by the authorised management bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

   c) existence in the Bank as at 31 December 2016 of the reporting system with regard to significant for the Bank credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as to the Bank's equity;

d) regular and consistent reports prepared by the Bank's risk management departments and internal audit service during 2016 regarding management of credit, operational, market, interest rate, liquidity and goodwill risks complied with the Bank's internal documents. These reports comprised observations made by the Bank's risk management departments and internal audit service on assessing whether the procedures adopted by the Bank are efficient as well as recommendations to improve the procedures.

e) as at 31 December 2016, the Bank's Board of Directors and its executive management bodies were responsible for control over the Bank's compliance with the maximum risk exposures and capital adequacy as set out in the Bank's internal documents. In order to control efficiency of the risk management procedures performed by the Bank and their consistency during 2016, the Bank's Board of Directors and its executive management bodies discussed the reports prepared by the Bank's risk management departments and internal audit service on a regular basis and considered action required to eliminate weaknesses.

We have performed audit procedures with regard to the quality control and risk management systems of the Bank for the purposes to verify compliance of the Bank's quality control and risk management systems to the requirements of the Bank of Russia for such systems.

Deputy General Director
Acting on the basis of letter of attorney No 02-01-160677
of 01 July 2016 valid through 30 June 2017

Ms. Natalia Borzova

Общество с ограниченной ответственностью "ФинЭкспертиза" Г.Р. № 937341 * Москва *

28 April 2017

**CB Garant-Invest (JSC)**
**Statement of Financial Position at 31 December 2016**
**(in thousands of Russian Roubles, if not otherwise specified)**

| | Notes | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 355 211 | 490 902 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 6 | 84 089 | 71 474 |
| Financial assets at fair value through profit or loss | | - | - |
| Held-to-maturity financial instruments | 7 | - | 316 924 |
| Available-for-sale financial assets | 8 | 1 330 329 | 1 909 378 |
| Due from other banks and financial institutions | 9 | 9 384 | 190 896 |
| Loans and receivables | 10 | 8 757 555 | 10 633 554 |
| Property and equipment and intangible assets | 11 | 7 229 | 4 044 |
| Property temporary used in ordinary activities | | - | - |
| Assets held for sale | | - | - |
| Derivative financial assets | | - | - |
| Other assets | 12 | 326 145 | 168 508 |
| **Total assets** | | **10 869 942** | **13 785 680** |
| **Liabilities** | | | |
| Due to other banks and financial institutions | 13 | 14 | 12 |
| Current accounts and deposits from customers | 14 | 7 405 862 | 10 120 466 |
| Debt securities issued | 15 | 180 945 | 83 621 |
| Payables under repo transactions | 16 | 1 127 071 | 1 861 587 |
| Subordinated borrowing | 17 | 479 676 | 479 541 |
| Deferred tax liability | | 1 004 | 125 499 |
| Other liabilities | 18 | 29 798 | 39 622 |
| **Total liabilities** | | **9 224 370** | **12 710 348** |
| **Equity** | | | |
| Share capital | 19 | 687 040 | 687 040 |
| Share premium | | 40 295 | 40 295 |
| Retained earnings | | 138 135 | 343 094 |
| Revaluation fund at fair value of available-for-sale financial assets | | 4 016 | 4 903 |
| Revaluation fund of property and equipment | | 586 | - |
| Additional capital | | 775 500 | - |
| Dividends | | - | - |
| **Total equity** | | **1 645 572** | **1 075 332** |
| **Total liabilities and shareholders' equity** | | **10 869 942** | **13 785 680** |

Signed on behalf of the Board of the Bank on 20 April 2017

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

Акционерное общество Коммерческий банк "Гарант-Инвест" ОГРН 1037739429320
КБ "Гарант-Инвест" (АО)
Москва

**CB Garant-Invest (JSC)**
**Income Statement for the year ended 31 December 2016**
**(in thousands of Russian Roubles, if not otherwise specified)**

| | Notes | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|---|
| Interest income | 20 | 1 494 884 | 1 562 98 |
| Interest expense | 20 | (622 421) | (798 708 |
| **Net interest income** | | **872 463** | **764 27** |
| Asset impairment provision | | (1 209 954) | (764 821 |
| **Net interest income after provision for loan portfolio impairment** | | **(337 491)** | **(546** |
| Gains less losses on trading securities transactions | | 42 502 | 40 66 |
| Gains less losses on foreign currency transactions | | 43 559 | 174 64 |
| Gains less losses on precious metals transactions | | - | - |
| Gains less losses on derivatives transactions | | (20 274) | - |
| Fee and commission income | 21 | 121 391 | 147 31 |
| Fee and commission expense | 21 | (41 831) | (39 407 |
| Dividends received | | - | - |
| Other operating income | | 104 561 | 5 39 |
| **Operating income** | | **(87 583)** | **328 05** |
| Administrative and other operating expenses | 22 | (172 522) | (153 287 |
| **Profit before income tax** | | **(260 105)** | **174 77** |
| Income tax | 23 | 55 146 | 16 52 |
| **Profit for the year** | | **(204 959)** | **191 29** |

Signed on behalf of the Board of the Bank on 20 April 2017

КБ "Гарант-Инвест" (АО)
МОСКВА

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

**CB Garant-Invest (JSC)**
**Statement of Comprehensive Income for the year ended 31 December 2016**
**(in thousands of Russian roubles, unless otherwise specified)**

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **Profit (loss) for the year** | **(204 959)** | **191 293** |
| Effect of property revaluation | 586 | - |
| Effect of revaluation reserve of financial assets available-for-sale | (1 109) | 6 129 |
| Additional capital (free contribution from shareholders) | 775 500 | - |
| Income tax attributable to components of comprehensive income | 222 | (1 226) |
| **Other comprehensive income/(expense) after tax** | **570 240** | **196 196** |

Signed on behalf of the Board of the Bank on 20 April 2017

I.L. Kasyanov
Chairman of the Board

Акционерное общество Коммерческий банк "Гарант-Инвест" ОГРН 1037739429320
КБ "Гарант-Инвест" (АО)
МОСКВА

N.P. Bagdashkina
Chief Accountant

**CB Garant-Invest (JSC)**
**Statement of Changes in Equity for the year ended 31 December 2016**
**(in thousands of Russian roubles, unless otherwise specified)**

| | Share capital | Share premium | Revaluation fund of property and equipment | Revaluation fund of available-for-sale financial assets | Additional capital | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2014** | **687 040** | **40 295** | **-** | **-** | **-** | **181 955** | **909 290** |
| Dividends | - | - | - | - | - | (30 154) | (30 154) |
| Comprehensive income (expense) for 2015 | - | - | - | 4 903 | - | 191 293 | 196 196 |
| **Balance at 31 December 2015** | **687 040** | **40 295** | **-** | **4 903** | **-** | **343 094** | **1 075 332** |
| Dividends | - | - | - | - | - | - | |
| Comprehensive income (expense) for 2016 | - | | 586 | (887) | 775 500 | (204 959) | 570 240 |
| **Balance at 31 December 2016** | **687 040** | **40 295** | **586** | **4 016** | **775 500** | **138 135** | **1 645 572** |

Signed on behalf of the Board of the Bank on 20 April 2017

I.L. Kasyanov
Chairman of the Board

КБ “Гарант-Инвест” (АО)

N.P. Bagdashkina
Chief Accountant

**CB Garant-Invest (JSC)**
**Statement of Cash Flows for the year ended 31 December 2016**
**(in thousands of Russian Roubles, if not otherwise specified)**

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest and fee and commission receipts | 1 507 049 | 1 752 612 |
| Interest and fee and commission payments | (693 244) | (827 021) |
| Gains less losses on trading securities transactions | 42 502 | (889) |
| Gains less losses on foreign currency transactions | (26 825) | (367 834) |
| Other operating income | 84 287 | 5 695 |
| Administrative and other operating expenses paid | (200 232) | (286 046) |
| Income tax paid | (44 884) | (7 655) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **668 653** | **268 862** |
| **Changes in operating assets and liabilities** | | |
| Net (increase)/decrease in assets: | | |
| Mandatory cash balances with the Central Bank of the Russian Federation | (12 615) | 18 436 |
| Financial instruments at fair value through profit or loss | - | - |
| Due from other banks and financial institutions | 181 600 | (33 741) |
| Loans and receivables | 57 265 | (1 879 648) |
| Other assets | (514 015) | 103 155 |
| Net increase/(decrease) in liabilities: | | |
| Due to other banks and financial institutions | 21 657 | (5) |
| Payables under repo transactions | (734 516) | (135 521) |
| Current accounts and deposits from customers | (1 635 648) | 602 622 |
| Promissory notes issued | 99 424 | (37 281) |
| Subordinated borrowing | - | - |
| Other liabilities | (15 395) | (131 273) |
| **Net cash used in operating activities** | **(1 883 590)** | **(1 224 394)** |
| **Cash flows from investing activities** | | |
| Held-to-maturity financial instruments | 386 289 | (252 768) |
| Available-for-sale financial assets | 632 097 | 1 471 329 |
| Additions and disposals of property and equipment | (6 215) | 505 |
| **Net cash provided from investing activities** | **1 012 171** | **1 219 066** |
| **Cash flows from financing activities** | | |
| Dividends paid | - | (20 136) |
| Free contribution from shareholders | 775 500 | - |
| **Net cash provided from financing activities** | **775 500** | **-** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(39 862)** | **22 947** |
| **Net increase in cash and cash equivalents** | **(135 781)** | **(2 544)** |
| Cash and cash equivalents at the beginning of the year | 490 902 | 493 446 |
| **Cash and cash equivalents at the end of the year** | **355 121** | **490 902** |

For the purposes of the statement of cash flows the cash and equivalents exclude the interest accrued of RUR 90 thousand as at 31 December 2016.

Signed on behalf of the Board of the Bank on 20 April 2017

Акционерное общество Коммерческий банк "Гарант-Инвест" ОГРН 1037739429320 КБ "Гарант-Инвест" (АО) Москва

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

## 1. Introduction

**Principal activities**

Commercial bank Garant-Invest (Close Joint Stock Company) (hereinafter referred to as "the Bank") is a credit organization established by reorganization of Commercial bank Garant-Invest (Limited Liability Company) based on decision of the general shareholders meeting (minutes No 19 of 9 June 1999).

In November 2014, CB Garant-Invest CJSC was renamed into CB Garant-Invest JSC.

The Bank operates on the basis of the license issued by the Bank of Russia on 24 October 2014 No 2567 to perform bank transactions with funds of corporations and individuals in Roubles and foreign currencies. The Bank is a holder of the licenses to perform transactions with securities: broker activities, dealer activities and security management issued by the Federal Commission for the Securities Market.

CB Garant-Invest (JSC) was registered in the system of obligatory deposit insurance on 15 July 2005 with registration number 838.

The Bank is member of Association of Russian Banks, Moscow Interbank Currency Exchange, Moscow International Business Association, International Payment Systems VISA, MasterCard Worldwide, Diners Club, Russian National Association SWIFT (ROSSWIFT), as well as the founder of Non-profit partnership Russian Trade Centres Council.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations of legal persons, including correspondent banks, and individuals as well as operations with securities and foreign exchange.

The Bank's principal business activity is commercial banking operations within the Russian Federation.

Registered address and location is 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

The average number of the Bank's personnel for 2016 amounted to 106 persons (2015: 105 persons).

| Item | 2016<br>Share | 2015<br>Share |
|---|---|---|
| A.Yu. Panfilov | 43,18 | 43,18 |
| ZAO Formulainvest | 15,51 | 16,52 |
| G.I. Kozovoy | 0,00 | 0,00 |
| OOO Imex-Finance | 0,00 | 5,09 |
| V.F. Smirnov | 3,41 | 3,41 |
| I.P. Biryukova | 2,46 | 2,46 |
| E.V. Biryukova | 2,46 | 2,46 |
| Yu.V. Panfilov | 1,95 | 1,95 |
| A.M. Sayglov | 1,61 | 1,61 |
| N.A. Gorbunova | 1,57 | 1,57 |
| T.G. Panfilova | 1,48 | 1,48 |
| O.P. Panfilova | 1,31 | 1,31 |
| A.G. Kozovoy | 11,00 | 11,00 |
| V.A. Korobchenko | 10,00 | 4,00 |
| Others with less than 1% of the share capital | 4,05 | 3,95 |
| **Total** | **100,00** | **100,00** |

As at 31 December 2016, the ultimate beneficiary of ZAO Formulainvest is Oleg Nikolaevich Semenyutin.

**Presentation currency.** These financial statements are presented in thousands of Russian Roubles ("RUR").

## 2. Business Environment

***Russian business and economic environment***

The economy of Russian Federation displays certain characteristics of an emerging market including a relatively high inflation. A number of currently effective provisions of the Russian tax, currency and customs regulations are evolving and subject to varying interpretations, and changes, which can occur frequently.

In 2016, the Russian economy was still adversely affected by a considerable drop in oil prices, considerable Russian rouble devaluation, tense geopolitical environment as well as by the sectoral and financial sanctions imposed in 2014 and restrictions of foreign capital market. Business depression under inflationary pressure characterized by lower GNP has been observed. The future economic growth of the Russian Federation depends on external factors as well as on internal actions including those taken by the Government to support the growth and make changes in the legal and regulation bases.

***Inflation***

The Russian economy is characterized by a relatively high inflation. The following table provides for inflation rates applicable during the previous five years.

| **Year ended on** | **Inflation for the period** |
|---|---|
| 31 December 2016 | 5,40% |
| 31 December 2015 | 12,91% |
| 31 December 2014 | 11,40% |
| 31 December 2013 | 6,45% |
| 31 December 2012 | 6,58% |

***Foreign currency transactions***

Foreign currencies especially US dollars and EUR have a significant effect on identifying economic parameters of many economic events in the Russian Federation. The table below presents RUR-USD and RUR -EUR rates established by the Bank of Russia:

| **Date** | **USD** | **EUR** |
|---|---|---|
| 31 December 2016 | 60,6569 | 63,8111 |
| 31 December 2015 | 72,8827 | 79,6972 |
| 31 December 2014 | 56,2584 | 68,3427 |
| 31 December 2013 | 32,7292 | 44,9699 |
| 31 December 2012 | 30,3727 | 40,2286 |
| 31 December 2011 | 32,1961 | 41,6714 |

## 3. Basis of preparation

***General***

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Bank maintains its records in accordance with the applicable legislation in the Russian Federation. These financial statements are based on the Bank's statutory books and records, adjusted and reclassified to comply with IFRSs.

***Functional and presentation currency***

Functional currency of the Bank is the rouble of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

***Estimates and judgements***

The financial statements are prepared under the estimates and assumptions that have effect on the amounts of assets and liabilities, contingent assets and liabilities at the balance sheet date and the amounts of income and expenses during the reporting period. Items to be better estimated and of high significance for the financial statements are disclosed in Notes.

*Going concern*

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank.

The Bank management can't foresee the effect of the aforementioned factors on the Bank's financial position in the future. These financial statements do not include adjustments related to this risk.

The financial statements have been prepared on the going concern assumption.

The Bank monitors external factors on a regular basis that may have an effect on the Bank's liquidity and forecasts payment flows for efficient liquidity risk management. The Bank analyses gaps between settlement of assets and liabilities for medium- and long-term liquidity risk management. The Bank sets limits for liquidity gaps in order to restrict the risk. The Bank regularly reviews the maximums set with regard to the changing external and internal environmental factors.

The Bank can attract additional funds from the Bank of Russia and in the interbank credit market in order to maintain liquidity. The Bank minimizes its reliance on a certain liquidity resource and ensures settling own liabilities in full due to diversified liquidity resources. The Bank's accumulated surplus of current liquidity and available resources to attract additional funds help provide the Bank's going concern on a long-term basis.

*Adoption of New or Revised Standards and Interpretations*

The following amended standards became effective from 1 January 2016:

**IFRS 14** ***Regulatory Deferral Accounts*** (issued in January 2014; effective for annual periods beginning on or after 1 January 2016). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

***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). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38 - ***Clarification of Acceptable Methods of Depreciation and Amortisation*** (issued on 12 May 2014 and effective for annual periods beginning on or after 01 January 2016). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

***Equity Method in Separate Financial Statements*** - Amendments to IAS 27 (issued on 12 August 2014 and effective for the periods beginning on or after 1 January 2016). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

***Disclosure Initiative*** - Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

***Annual improvements to IFRSs 2014*** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 July 2016). The improvements address four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to assist management in determining whether the terms of an arrangement to service a financial asset which has been transferred constitute a continuing involvement for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for an interim period unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

*Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28* (issued in December 2014 and effective for annual periods beginning on 1 January 2016). The Management does not anticipate that the amendment will have a material impact on the Bank's financial statements.

***New Accounting Pronouncements***

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2016 and which the Bank has not early adopted:

IFRS 9 ***Financial Instruments:*** *Classification and Measurement* (amended in July 2014, effective for annual periods beginning on or after 01 January 2018). Key features of the new standard are as follows:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair through profit or loss (FVtPL).

• Classification of 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. If a debt instrument is held to collect it may be carried at amortised cost if is also meets the solely payments of principal and interest requirement. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as at fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest 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 solely payments of principal and interest 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.

• 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 changes 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 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.

This standard is not expected to have a material impact on the Bank's financial statements.

IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014 and effective for the periods beginning on or after 01 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 Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 10 and IAS 28 - *Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014 and effective for the periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. Currently the Bank is assessing the impact of the amendments on the financial statements.

***IFRS 16 Leases*** (issued in January 2016; 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. The standard requires a lessee 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; (b) depreciation of the right-of-use asset and interest on the lease liability separately in the profit and loss. 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. Currently the Bank is assessing the impact of the amendments on the financial statements.

*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). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. Currently the Bank is assessing the impact of the amendments on the financial statements.

*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. Currently the Bank is assessing the impact of the amendments on the financial statements.

The new standards and interpretations are not expected to affect significantly the Bank's financial statements at their first-time adoption.

## 4. Significant accounting policies

***Significant measurement terms***

The Bank applies the following measurement techniques when recognising financial instruments: at fair value, at amortised cost or at cost.

Fair value is an amount for which an asset could be exchanged between a knowledgeable, willing buyer and seller in an arm's-length transaction. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institutions and those prices represent actual and regularly occurring market transactions.

Fair value of quoted financial instruments is based as follows:

- quoted market prices for, as a rule, financial instruments trading through the organisers of the trading;
- the asking price for financial assets and the bid price for financial liabilities and the estimated fair value based on the information and analytical systems (e.g. *Reuters* and *Bloomberg*), market dealers and other institutions.

If the market for a financial instrument in not active, the following information can be used for fair value measurement.

- recent quoted market price (asking (bid) price) from independent sources if no significant changes occurred in the economic situation to the reporting date;
- actual price of the transaction made by the Bank in the common course of business if no significant changes occurred from the transaction date to the reporting date.

In the event of significant changes, the most recent quoted price (transactions price) shall be adjusted to the change in the quoted price (transaction price) for similar financial instruments. The recent quoted price (transaction price) of debt securities can be adjusted with account on the circulation period of the debt security.

Fair value measurement is based on a going concern principle of an entity that has neither the intention nor the need to liquidate or curtail materially the scale of its operations or perform transaction on unfavourable conditions. Thus, the fair value is not equal to the amount that the Bank receives at an involuntary transaction, liquidation procedure or at going-out-of-business sell.

The fair value of financial instruments when quoted market prices from external resources are not available is measured by such techniques as discounted cash flow and financial analysis. Any valuation technique widely applied by market participants and evidencing reliability of measurement and pricing resulted from actual market transactions may be applied for measuring the price of financial instruments. A valuation technique may be chosen for any individual measurement of fair value; and if not justified otherwise techniques based on the quoted market prices and bid and asking prices are applied.

The Bank classifies information used to measure fair value of a financial instruments based on material inputs used for measurement as follows:

- level one are measurements at quoted prices in active markets for identical assets or liabilities;
- when no quoted prices are available:
- quoted prices in active markets for most recent transactions provided that no significant changes occurred to the economic environment, and quoted prices for identical financial instruments in markets that have undergone significant changes, as well as inputs other than quoted prices that are observable of the instrument (level 2);
- unobservable inputs used for measurement (level 3).

***The amortised cost*** of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured at initial recognition less any principle repayments, plus or minus cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. Amortization of the stated difference is made using the effective interest method. 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 are not presented separately and are included in the carrying amount of related assets and liabilities.

***The effective interest method*** is a method of calculating the amortized cost of a financial asset of a financial liability and of allocating the interest income or interest expense over the relevant useful life of the financial asset or financial liability.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period to the net carrying amount of the financial asset or the financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment) but does not consider future credit losses.

This calculation includes all fees and points 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. When loans become doubtful of collection, they are written down to 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.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Bank uses the contractual cash flows over the full contractual term of the financial instrument.

***Cost*** is the amount of cash or cash equivalents paid or fair value of other resources for acquisition of an asset at the purchase date and includes transaction costs. Cost is used to measure investments in equity instrument which do not have quote prices and where fair value cannot be reliably measurement and derivatives which are related to such equity instruments that do not have quoted prices and shall be settled with such equity instruments. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability and include remuneration and commissions to agents (including employees acting as trade agents), consultants, brokers and dealers; levies to regulating bodies and stock exchanges as well as taxes and levies applicable for property transfer. Transaction costs do not include bonuses or discounts to debt liabilities, financing expenses or internal administrative or holding costs.

Under payment date method, the Bank recognizes any change in the fair value of a financial liability to be delivered between the transaction date and the payment date as it is recognizes a change in the value of the asset purchased i.e. the change in value is not recognised with regard to assets measured at cost or amortized cost; it is charged against profit or loss with regard to assets designated as financial asset at fair value through profit or loss and is recognized among equity applicable to assets designated as available for sale.

Under payment date method, transactions are classified as those with derivative financial instrument until payments are made.

***Impairment of financial assets***

The Bank makes provisions for impairment of all types of financial assets except for financial assets at fair value through profit or loss. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence that a financial asset is impaired or not is past-due accounts and that sale of the respective collateral is possible. The primary factory that the Bank considers in determining whether a financial asset is impaired is its overdue status.

The following other principal criteria are also used to determined whether there is objective evidence that an impairment loss ("loss event") has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower or issuer faces significant financial difficulty that is evidenced by the financial statements of the borrower or issuer received by the Bank;
- it becoming probable that the borrower or the issuer will enter bankruptcy;
- due to adverse changes in the payment status of borrowers or issuers caused by changes in national or local economic conditions that have an impact on the borrower or the issuer;
- the value of the security has considerably decreased due to unfavourable market conditions;
- creditor due to economic or legal reasons, has provided incentives which would not happen otherwise;
- disappearance of an active market for that financial asset because of financial assets (not because the asset is not traded in a market);
- information on the degree and tendency to breaches of contracts for similar financial instruments by the issuer or the borrower.

Impairment losses in financial assets carried at amortized cost are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the financial asset.

The Bank does not recognise impairment losses at initial recognition of financial assets.

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

Future cash flows within a group of financial assets to be collectively assessed for impairment are estimated on the base of the contractual cash flows related to these assets and on the base of the historical loss experience and on the possibility to recover the past-due debts.

The historical loss experience is adjusted on the basis of relevant observable data that reflect current economic conditions that have not affected the prior periods or to remove the past effects.

Impairment losses either increase directly carrying amount of a financial asset or are recognised through an allowance amount to write down the asset's carrying amount to the present value of expected cash flows (which excludes 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 a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

After the adjustment due to impairment to the recoverable amount, the interest income is based on the interest rate that was used to discount the future cash flows in order to determine the impairment loss.

Uncollectable financial assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

A new asset is initially recognized at fair value if the reviewed conditions considerable differ from the prior ones when these with regard to impaired financial assets are introduced.

Impairment losses on available-for-sale financial assets are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the available-for-sale financial assets.

A considerable or prolonged decrease in fair value of an equity security designated as available for sale below its acquisition cost indicates its impairment. In case of impairment indication, the cumulative loss defined as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss is reclassified out of other components of comprehensive income into profit or loss. Impairment losses of debt instruments are not reversed through profit or loss; an increase in fair value after impairment is recognised in other components of comprehensive income of the statement of comprehensive income.

Debt instruments classified as available-for-sale assets are assessed for impairment on the same basis ("loss events") as for financial assets carried at amortized cost. The loss amount to be reclassified into profit or loss is the difference between the purchase price of the asset (less principle payments and amortization of assets evaluated by effective interest method) and the current fair value less the impairment loss related to the asset that have been recognized in profit or loss.

Interest earned on impaired assets are based on the amortized costs including impairment loss recognized using the interest rate applied for discounting future cash flows for purposes of impairment loss assessment. Interest income is recognized against "Interest income" of the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reverse, with the amount of the reversal recognized in profit or loss.

***Derecognition of financial assets***

The Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- the Bank transfers the financial asset and the transfer qualifies for derecognition.

The Bank transfers a financial asset if:

- the Bank transfers the contractual rights to receive the cash flows of the financial asset; or
- the Bank retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

***Cash and cash equivalents***

Cash and cash equivalents include cash balances, accounts balances in current accounts of the banks and high-liquid easily convertible cash equivalents liable to insignificant cost changes. All short term interbank placements, beyond overnight placements, are included in due from other credit organizations and banks-non-residents (banks). Funds restricted for a period of more than three months are excluded from cash and cash equivalents.

***Mandatory cash balances with the Bank of Russia***

Mandatory cash balances with the Bank of Russia are carried at amortized cost and represent non-interest bearing deposits of the Bank of Russia which are not available to finance the Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

***Financial assets at fair value through profit or loss***

The Bank designates financial assets at fair value through profit or loss when these are financial assets held for trading or other financial assets initially classified as financial assets at fair value through profit or loss.

A financial assets is designated as held for trading if it is acquired for being traded in the nearest future (within six months) and is a part of identified financial instruments to be managed on comprehensive basis and which recent transactions evidence actual profitability. Derivatives with positive fair value are also classified as financial assets at fair value through profit or loss, held for trading if they are not designated as effective hedging instruments.

Initially and consequently financial assets at fair value through profit or loss are recorded at fair value that is based on quoted market prices or on the basis of different valuation techniques using an assumption on profitability to realize these financial assets in the future.

Depending on circumstances, different valuation techniques can be applied. Available published quoted market prices are the best basis for the fair value of an instrument. When quoted market prices are not available, techniques related to the information on recent market transactions between knowledgeable willing and independent parties or to current fair value of similar instruments or to analysis of the discounted cash flow, or model for option price measurement are used. When a reliable valuation technique widely used by the market participants is available, it is advisable to apply such a technique.

Realized and unrealized income and expenses of transactions with financial assets at fair value through profit and loss to be recorded immediately at the period when they occur as income less transaction costs related to financial assets at fair value through profit or loss.

Interest income from financial assets at fair value through profit and loss is calculated by effective interest method and is recorded in the income statement as interest income from financial assets at fair value through profit and loss. Under usual payment conditions, purchase and sale of financial assets at fair value through profit or loss are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset. Dividends received are recorded in line "Income from dividends" in the income statement within operating income.

The Bank classifies financial assets at fair value through profit and loss in the appropriate category at the acquisition date. Financial assets classified as financial assets at fair value through profit and loss are not to be reclassified.

### *Due from other banks*

Amounts due from other banks are recorded when the Bank (including the Bank of Russia) advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

The funds placed at other banks are recognised when cash is given (placed). Current loans and deposits are initially measured at fair value. Subsequently, loans and deposits placed are carried at amortized cost less the provision for loan impairment. The amortised cost is based on fair value of the loan granted or deposit placed that is measured with consideration of market interest rate of similar loans and deposits at the dates when loans are provided or deposits are placed.

The difference between the fair and par values of the loan (deposit) arising at granting a loan (placing a deposit) is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans (deposits) will be adjusted by amortization of income (expense) from the loan and the correspondent income is recorded in the income statement using the effective interest method.

Section Impairment of Financial Assets details the order of impairment of financial assets.

### *Loans and receivables*

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

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

b) those that the entity upon initial recognition designates as available for sale; or

c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Initial recognition of loans and receivables is carried at fair value plus transaction costs (i.e. the fair value of the consideration paid or received).

Subsequent measurement of loans and receivables is carried at amortized cost using the effective interest method.

Loans and receivables are recognised when cash is provided to borrowers. Interest-bearing loans other than market interest rates are measured at payment date at fair value that is the principle and future interest payments discounted by interest market rates for similar loans.

The difference between the fair and par values of the loan is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans will be adjusted by amortization of income (expense) from the loan and the correspondent income is recorded in the income statement using the effective interest method.

Section Impairment of Financial Assets details the order of impairment of financial assets.

***Promissory notes purchased***

Promissory notes purchased are classified according to purpose of their acquisition as financial assets at fair value through profit or loss, financial assets held-to maturity, loans and receivables, financial assets available-for-sale and subsequently recognised in accordance with the accounting policies for these categories of assets.

***Held-to-maturity financial assets***

This category includes financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank classifies financial assets at the acquisition date. The Bank assesses its intention and ability to hold the financial assets to maturity at every reporting date but not only at the initial recognition date of such financial assets.

Initially financial assets held-to-maturity are carried at fair value plus transaction costs and subsequently – at amortized cost using the effective interest method less provision for impairment which is the difference between the carrying amount and the current cost of estimated future cash flows discounted by original effective interest method.

Interest income from financial assets held-to-maturity is calculated by effective interest method and is recorded in the income statement as interest income for financial assets held-to-maturity.

***Property and equipment***

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 1 January 2003 for assets acquired prior to 1 January 2003, either at restated value less accumulated depreciation and provision for impairment, where required.

The Bank assesses any indication of impairment of property and equipment at every reporting date. In the event such indication exists, the Bank measures recoverable cost as the higher of fair value less selling costs and value in use.

Value in use is the present value of the future cash flows expected to be derived from assets. Estimating the value in use involves estimating the future cash flows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows.

In the event the carrying amount of the property and equipment exceeds its estimated recoverable cost, the carrying amount of the property and equipment is reduced to its recoverable cost, and the difference is recorded in the profit or loss as an expense from impairment of property and equipment unless property and equipment are carried at revalued amount (for example, at revaluation model under IAS 16 Property, Plant and Equipment (IAS 16). Any impairment loss of a revalued asset is treated as a revaluation decrease. Impairment losses recognised for property and equipment in prior years are reversed if estimated used to determine recoverable amount of property and equipment have been changed.

Gain or loss from disposal of property and equipment is the difference between disposal gains and carrying amount of property and equipment disposal and is recognised in profit or loss.

Costs of repairs and maintenance are recorded in the income statement when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

***Depreciation***

Depreciation is charged on a straight-line basis over the useful life of assets with depreciation rates set out in Resolution of the Russian Federation Government of 1 January 2002 No 1 *Classification of Property, Plant and Equipment Included in Depreciable Groups.*

| ***Property and equipment*** | ***Straight-line annual depreciation rate*** |
|---|---|
| Group 3. Computers and equipment, motor vehicles | 32,40% |
| Group 4. Tele- and radio-equipment, furniture and fixtures | 19,7%-14,3% |
| Group 5. Telephone station, resources of power supply | 14%-10% |
| Group 8. Metal equipment for safety of valuables | 5% |

Depreciation method applied to an asset shall be reviewed at each financial year end. Any significant change in depreciation approach shall influence the depreciation method of the asset. This change shall be recorded as a change in accounting estimated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8).

Depreciation is recognized even if the fair value of an asset exceeds its carrying amount under condition its residual value does not exceed its carrying amount. Repair and maintenance of an asset do not exclude the need to depreciate it.

Depreciation is recognized when an asset is available for use i.e. when its location and condition enable the Bank to use it in accordance with its intentions. Depreciation is derecognized at the earlier of the dates: the date when the asset is classified as held for trading (or its inclusion in a disposal group) or at the date when the asset is derecognized.

***Intangible assets***

Intangible assets are identifiable non-monetary assets without physical form. An intangible assets acquired separately is measured initially at cost. If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. Subsequently intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are finite. Intangible assets with finite useful lives are amortized over their useful lives up to 10 years and are tested for impairment if there is an indication of impairment.

Amortization periods and order for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Change in estimated useful lives or estimated nature of use and inflow of future economic benefits is recorded through changes in amortisation period or method (depending on the situation) and is regarded as changes in accounting estimates. Amortization of intangible assets with a finite useful life are recorded among expenses of the income statement based on the intended use of the intangible asset. Intangible assets with an infinite useful life are not amortized. The company tests an intangible asset with an indefinite useful life for impairment either separately or by cash-generating units.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Otherwise indefinite useful lives are prospectively changed into finite ones. Acquired software licences are capitalised based on costs incurred to acquire and install the software.

Research costs directly attributable to identifiable software under the Bank' control and which economic benefits over the costs are probable to flow to the Bank during the period over one year.

Capitalised costs include expenditure for developers of software and correspondent share of general economic expenditure. Expenditure to improve or develop features of software compared to their initial specifications are capital expenditure and capitalized to the software. Costs to use the software are recorded in expenses when they incur.

***Operating leases***

Where the Bank is a lessee in an operating lease, the total lease payments are recorded in the income statement on a straight-line basis over the period of the lease.

Leases included in other contracts are separated if contract execution depends on use of the asset(s) and the contract provides for title transfer of the asset.

***Finance leases***

When the Bank is a lessor and all risks and rewards are transferred to the lessee, assets held under a finance lease are presented as a receivable and are stated at present value of future lease payments. Receivables under a finance lease are initially recognised at the commencement of the lease term with use of a discount rate determined at the inception of the lease (the inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

Unearned finance income is the difference between the gross investment in the lease and the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Additional costs in connection with arranging a finance lease are included in the original receivable under the finance lease and decrease income recognizable over the lease period (except for certain Bank's subsidiaries that are manufacturer or dealer lessor (where such costs are recognised as an expense when the selling profit is recognised and in case of immediate non-cash sale). Finance income from lease is recorded as other operating income in the income statement.

Impairment losses on receivables under a finance lease are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the receivable under a financial lease. The Bank applies the key criteria set out in Impairment of Financial Assets to determine whether receivables under a finance lease are impaired. Impairment losses of receivables under a finance lease are recognised through making a provision for impairment of receivables under a finance lease in the amount of the difference between the net carrying amount of the receivable under a finance lease and present value of estimated future cash flows (including future but not yet incurred losses) discounted by embedded contractual rate of return. Estimated future cash flows reflect cash flows that may arise from receiving or sale of an asset under a lease agreement.

***Borrowings***

Due to other banks include customers accounts, deposits and balances from banks (including the Bank of Russia) and other borrowed funds.

Due to other banks are initially recognized at fair value, which is the received amount less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(Hedge accounting principles are applied with regard to deposits where risks are hedged by derivative financial instruments). Loans received with interest rates other than market are measured at acquisition date at fair value that includes the principal and the future interest payments discounted by market interest rates for similar amounts.

The difference between the fair and par value of these amounts is recorded in the income statement as income from due to other banks at rates lower than the market rates or as expense form due to other banks at rates higher than the market rates. Subsequently the carrying amount of due to other banks is adjusted by amortization of initial income (expense) from due to other banks and the correspondent expenses are recorded as interest expenses in the income statement using the effective interest method.

***Trade and other payables***

The Bank recognizes accounts payable upon fulfilling the liabilities by a contractor and carries them at amortized cost.

***Credit related commitments***

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees 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 commitments 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, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of the unamortised balance of the amount at initial recognition and the best estimate of expenditure required to settle the commitment at the balance sheet date.

The Bank makes provisions for credit related commitments if losses arising from such commitments are probable.

***Dividends***

Dividends declared subsequent to the date of the statement of financial position are recognised in the note on events subsequent to the reporting date.

If dividends are declared to equity instruments holders after the reporting period, such dividends are not recognised as liabilities at the end of the reporting period.

Dividends are recognised when approved by a general shareholders' meeting and disclosed as profit distribution in the financial statements.

***Income and expense recognition***

Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method.

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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not classify commitments to originate loans as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to 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.

Other fee and commission income and other income and expenses are 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.

Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities are recorded upon completion of the transaction. Fee and commission income from investing portfolio management and other management and consulting services are recorded under provisions of relevant services contracts as a rule on a ratio basis to time consumed. Commission income from services related to management of assets (trusting management) is recorded under the provisions of the contract at the date when the Bank receives the right to receive this income and the income amount can be measured.

Income from long-term services is recognized every reporting period on proportion basis of the services provided. The same technique refers to services related to asset management, financial planning and depository services which are regularly provided during a long period of time.

***Income tax***

The taxation charge is calculated in accordance with the laws and regulations of the Russian Federation. Income tax (recovery) in the income statement includes current taxes and changes in deferred taxes.

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 financial statements are authorised prior to filing relevant tax returns.

Taxes, other than income tax, are recorded within administrative and other operating expenses.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements.

Deferred tax assets and deferred tax liabilities are measured at the amount of the recognized temporary difference multiplied by the tax rate that is expected to apply in the period in which the asset will be realized using the tax rates enacted, or substantively enacted, at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- for taxable temporary differences associated with investments in subsidiaries, branches and associates, the timing of the reversal of the temporary difference is controllable, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences except:

- When the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- for deductible temporary differences associated with investments in subsidiaries, branches and associates, a deferred tax asset is recognised to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred taxes arising at revaluation at fair value of available-for-sale financial assets, property and equipment with recognition of the revaluation in other components of comprehensive income are also recognised in the statement of comprehensive income. Correspondent deferred taxes are recognised in profit or loss when the financial assets are sold.

The Bank offsets deferred taxes and deferred liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same organization - tax payer of the Bank or taxation authority.

***Foreign currency translation***

Items included in the financial statements of the Bank are measured in a currency of primary economic environment where the Bank functions ("functional currency"). Functional currency of the Bank is the national currency of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Foreign currency operations are recognised at the official rate of the a foreign currency against the Rouble set by the Bank of Russia at the transaction date.

Exchange differences arising from transaction in a foreign currency at a rate other than the official rate of the foreign currency against the Rouble established by the Bank of Russian shall be recognised in profit or loss item income less expenses on foreign currency operations.

Monetary assets and liabilities in foreign currencies are translated into the Russian Roubles at the official exchange rate of the Bank of Russia at the balance sheet date.

Foreign exchange gains and losses from conversion of monetary assets and liabilities into the functional currency at the Bank of Russia official rate of the foreign currency against the Russian Rouble are recognised in item Income Less Expenses (Expenses Less income) on Foreign Currency Conversion of the profit and loss. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Statements of comprehensive income and of cash flows of foreign entities are translated in the currency of the Russian Federation at the average official rate of a foreign currency against the rouble set by the Bank of Russia for the year; statements of financial position are translated into the currency of the Russian Federation at the official rate of a foreign currency against the Rouble set by the Bank of Russian at the reporting date.

Exchange differences arising due to translation of net investments in foreign entities into the currency of the Russian Federation are recognised in equity. When a foreign entity is sold, such exchange differences are recognised as income or expense within profit or loss.

As at 31 December 2016, the official rates of foreign currencies against the Rouble set by the Bank of Russian used for revaluation of foreign currency balances are as follows: RUR 60.6569 per USD 1 (2015: RUR 72.8827 per USD 1); RUR 63.8111 per EUR 1 (2015: RUR 79.6972 per EUR 1).

***Inflation accounting***

Prior to 31 December 2002 the Russian Federation was considered to be hyperinflationary. Thus the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29). The effect of IAS 29 is that all non-monetary items of financial statements including components of capital to be restated in monetary units effective on 31 December 2002 using the relevant inflation rates to the historical cost and in the subsequent period to perform accounting on the basis of this restated cost.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency (before 2004 - Russian State Statistics Committee), and from indices obtained from other sources for years prior to 1992.

### *Estimated liabilities*

Estimated liabilities are uncertain non-financial liabilities as for the volume and terms.

Estimated liabilities are recognized when the Bank has obligations (legal or due to business practice) arisen prior to the balance sheet date. To settle these liabilities, outflow of economic resources is probable and the amount of the liabilities to be reasonable measured.

### *Staff costs and related contributions*

Expenses related to salary, wages, bonuses, vacation payments, contributions to the Russian Federation Pension Fund and Russian Federation Social Fund are made when works are performed; expenses related to temporary disability, maternity leave and other incentives are made when they occur.

The Bank takes the responsibility for payments related to leaves that the Bank's employees have not used. Such responsibilities are presented in the statement of financial position in line Other Liabilities and in profit or loss with regard to vacations to be during the reporting period and in retained earnings with regard to vacations to be during the periods prior to the reporting.

### *Related party transactions*

The Bank enters into transactions with related parties. 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.

## 5. Cash and cash equivalents

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Cash balances with the Bank of Russia (other than mandatory reserve deposits) | 172 691 | 337 050 |
| Cash on hand | 64 686 | 128 254 |
| Correspondent accounts and overnight placements with other banks: | 117 834 | 25 598 |
| - Russian Federation | 102 340 | 769 |
| - other countries | 15 494 | 24 829 |
| **Total cash and cash equivalents** | **355 211** | **490 902** |

## 6. Mandatory cash balances with the Bank of Russia

Mandatory cash balances with the Bank of Russia are reserves placed in the Bank of Russia. Loan institutions are obliged to deposit cash in the Bank of Russia as a non-interest bearing cash deposit (mandatory cash balances fund) the amount of which depends on the amount of the raised funds the loan institution. Withdrawal of this deposit is restricted by the legislation of the Russian Federation.

Mandatory cash balances with the Bank of Russia as at 31 December 2016 amounted to RUR 84,089 thousand.

Mandatory cash balances with the Bank of Russia as at 31 December 2015 amounted to RUR 71,474 thousand.

## 7. Held-to-maturity financial assets

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Russian Government bonds | - | 6 921 |
| Loan bonds of foreign countries | - | |
| Municipal bonds | - | |
| Bonds of the Bank of Russia | - | |
| Bonds issued by Russian banks | - | |
| Bonds issued by non-resident banks | - | |
| Corporate bonds | - | |
| Corporate eurobonds | - | |
| Promissory notes | - | |
| Debt liabilities under repo transactions | - | 310 003 |
| **Total financial assets held-to-maturity before provision for impairment** | - | **316 924** |
| Less provision for impairment | - | - |
| **Total financial assets held to maturity** | - | **316 924** |

**At 31 December 2015**

The bonds are represented by USD-denominated RUSSIA-EUROBOND bonds.

Debt liabilities under repo transactions are represented by USD-denominated bonds issued by the Russian Finance Ministry. The debt liabilities under repo agreements mature in January 2016.

## 8. Available-for-sale financial assets

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Debt liabilities under repo transactions | 1 194 504 | 1 723 533 |
| Equity liabilities under repo transactions | - | - |
| Federal loan bonds (OFZ bonds) | 47 602 | 131 540 |
| Bonds issued by Russian banks | 29 914 | 31 401 |
| Corporate bonds | - | - |
| Municipal bonds | 18 769 | 67 |
| Other debt liabilities | 65 919 | - |
| Shares of banks | - | - |
| Other stock and shares | - | 48 108 |
| Promissory notes | - | - |
| Less provision for impairment | (30 708) | (30 709) |
| Revaluation of available-for-sale financial assets | 4 329 | 5 438 |
| **Total financial assets available-for-sale** | **1 330 329** | **1 909 378** |

As at 31 December 2016:

Debt liabilities under repo transactions comprise:

- corporate interest bearing eurobonds denominated in USD and RUB issued by VEB FINANCE PLC, TMK CAPITAL S.A, ALFA BOND, SB CAPITAL S.A., GAZ CAPITAL S.A with annual coupon income from 6.03% to 7.75% depending on issue and are freely tradable in the international markets.
- Russian municipal bonds of Krasnoyarskiy Krai and bonds of Samarskiy and Lipetskoy Regions denominated in Russian Roubles with annual coupon income from 6.89% to 8.15% depending on the issue;
- bonds of Russian credit organizations (Bank Zenit) denominated in Russian Roubles with annual coupon interest from 11.25%;
- bonds of the Russian Finance Ministry denominated in Russian Roubles and US Dollars with annual coupon interest from 4.75% to 12.32%.

Municipal bonds are represented by bonds of Volgogradksiy and Nizhegorodskiy Regions denominated in Russian Roubles with annual coupon interest from 7.99% to 9.65% depending on the issue;

Federal Loan Bonds are represented by bonds of the Russian Finance Ministry to mature in February 2027.

Bonds issued by Russian banks are represented by bonds of NOTA-Bank PAO which have been 100% provided for impairment.

As at 31 December 2015:

Debt liabilities under repo transactions comprise:

- corporate interest bearing eurobonds denominated in USD and RUR issued by PSB Finance S.A., VEB FINANCE PLC, TMK CAPITAL S.A., RSHB CAPITAL S.A., ALFA BOND, SB CAPITAL S.A., VTB CAPITAL SA, AHML Finance Ltd, FED GRID FINANCE, GAZ CAPITAL S.A., LUKOIL INT FIN with annual coupon income from 3.85% to 8.625% depending on issue and are freely tradable in the international markets.

- Russian municipal bonds of Krasnoyarskiy Krai and bonds of Nizhegoroskiy, Volgogradskiy, Samarskiy and Lipetskoy Regions denominated in Russian Roubles with annual coupon income from 7.49% to 11.5% depending on the issue;
- bonds of Russian credit organizations (Bank Zenit, ALPHA-BANK, DeltaCredit, Centr-Invest) denominated in Russian Roubles with annual coupon interest from 8.35% to 16.1% depending on the issue.
- Federal loan bonds (OFZ 46017) denominated in RUR, with annual coupon interest of 6%.

Equity securities in the Bank's portfolio are represented by shares of Russian companies of fuel and energy complex (OAO Gazprom, OAO Raspadskaya, OAO INTER RAO UES) and shares of OAO Rostelecom.

Federal Loan Bonds are represented by securities OFZ 46017 to mature in August 2016, OFZ 26207 to mature in February 2027; and by external bonds RUSSIA-EUROBONDS to mature from April 2020 to April 2022.

Bonds issued by Russian banks represent bonds issued by NOTA-Bank PAO which have been 100% provided for.

## 9. Due from other banks and financial institutions

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Nostro accounts | 1 114 | 11 1962 |
| Term inter-bank loans and deposits | - | - |
| Banks promissory notes | - | - |
| Other accounts | 9 384 | 81 156 |
| Less provision for impairment | (1 114) | (2 222) |
| **Total due from other banks** | **9 384** | **190 896** |

As at 31 December 2016, the Bank has no deposits exceeding 10% of the Bank's equity.

As at 31 December 2015, the Bank has no deposits exceeding 10% of the Bank's equity.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 24, 30-31.

## 10. Loans and receivables

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Current loans | 11 968 535 | 13 015 746 |
| Past due loans | 447 137 | 330 919 |
| Less provision for loans and receivables impairment | (3 658 117) | (2 713 111) |
| Accrued interest income (delay) account 459 | - | |
| **Total loans and receivables** | **8 757 555** | **10 633 554** |

*Credit quality of commercial loan portfolio of the Bank*

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2016:

| Categories: | Corporations | Loans to small and medium entities | Loans to individuals | Total |
|---|---|---|---|---|
| Quality category 1 | | - | 302 | **302** |
| Quality category 2 | - | 4 268 741 | 6 973 | **4 275 714** |
| Quality category 3 | 399 600 | 5 224 686 | 4 245 | **5 628 531** |
| Quality category 4 | - | 1 345 062 | 180 | **1 345 242** |
| Quality category 5 | - | 881 633 | 284 250 | **1 165 883** |
| **Total** | 399 600 | 11 720 122 | 295 950 | **12 415 672** |

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2015:

| Categories: | Corporations | Loans to small and medium entities | Loans to individuals | Total |
|---|---|---|---|---|
| Quality category 1 | - | - | 630 | **630** |
| Quality category 2 | 5 852 468 | 709 522 | 8 534 | **6 570 524** |
| Quality category 3 | 5 160 885 | 563 998 | 8 540 | **5 733 423** |
| Quality category 4 | 441 592 | - | - | **441 592** |
| Quality category 5 | 200 000 | 398 724 | 1 772 | **600 496** |
| **Total** | **11 654 945** | **1 672 244** | **19 476** | **13 346 665** |

The Bank estimates the amount of the provision for impairment of commercial loans on the basis of future discounted cash flows of impaired loans analysis and of past practice of losses incurred from loan portfolios impairment signs of which have not been revealed.

*Collateral analysis*

The following table provides collateral analysis for loans as at 31 December 2016:

| Categories: | Corporations | Loans to small and medium entities | Loans to individuals | Total |
|---|---|---|---|---|
| Securities | - | 768 110 | - | **768 110** |
| Guarantee | - | 4 758 451 | 1 276 283 | **6 034 734** |
| Legal claims | - | - | - | - |
| Real estate | - | 693 139 | 98 527 | **791 666** |
| Goods in circulation | - | 163 726 | - | **163 726** |
| Other property | 5 241 | 108 766 | - | **114 007** |
| Other | - | 10 | - | **10** |
| **Total** | **5 241** | **6 492 202** | **1 374 810** | **7 872 253** |

The following table provides collateral analysis for loans as at 31 December 2015:

| Categories: | Corporations | Loans to small and medium entities | Loans to individuals | Total |
|---|---|---|---|---|
| Securities | - | - | - | - |
| Guarantee | 7 388 207 | 2 682 752 | 231 | **10 071 190** |
| Legal claims | - | - | - | - |
| Real estate | 25 197 | 105 608 | 2 650 | **133 455** |
| Goods in circulation | - | 34 328 | - | **34 328** |
| Other | - | 55 874 | 167 | **56 041** |
| Other | - | - | - | - |
| **Total** | **7 413 404** | **2 878 562** | **3 048** | **10 295 014** |

The amounts stated above in the tables are not represented by the fair value in all cases.

***Analysis of movements in the provision for impairment***

Movements in the provision for loan impairment are as follows:

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Provision as at the beginning of the year | (2 713 111) | (1 980 925) |
| Provisions made during the year, net | (945 006) | (732 186) |
| **Provision as at the end of the year** | **(3 658 117)** | **(2 713 111)** |

***Concentration analysis***

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

| | 2016 RUR'000 | | 2015 RUR'000 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Trade | 8 066 716 | 64,97% | 8 714 566 | 65,29% |
| Individuals | 295 950 | 2,38% | 19 476 | 0,15% |
| Real estate | 1 896 540 | 15,28% | 938 308 | 7,03% |
| Advertising | 134 394 | 1,08% | 213 324 | 1,60% |
| Construction | 279 280 | 2,25% | 844 476 | 6,33% |
| Restaurants | 1 172 976 | 9,45% | - | 0,00% |
| Financial services | - | 0,00% | 680 000 | 5,09% |
| Consulting services | - | 0,00% | 741 911 | 5,56% |
| Other services | 569 816 | 4,59% | 1 194 604 | 8,95% |
| **Total loans and receivables (before provision for impairment of loan portfolio)** | **12 415 672** | **100%** | **13 346 665** | **100%** |

**Significant loan concentrations**

As at 31 December 2016 and 31 December 2015, the Bank provided no loans with 10% share of the comprehensive loans to customers.

**Loan maturities**

The Bank's portfolio maturities are presented in Note 30. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

## 11. Property and equipment

| | Buildings | Office equipment and furniture | Vehicles | Intangible assets | Total |
|---|---|---|---|---|---|
| **Carrying amount as at 31 December 2015** | 1 936 | (38) | 2 099 | 47 | 4 044 |
| **Cost** | | | | | |
| Opening balance | 2 163 | 4 965 | 15 289 | 68 | **22 485** |
| Additions | - | 1 959 | 1 063 | 2 777 | **5 799** |
| Disposals | - | (167) | - | (3) | **(170)** |
| **Closing balance** | **2 163** | **6 757** | **16 352** | **2 842** | **28 114** |
| **Accumulated depreciation** | | | | | |
| ***Opening balance*** | (227) | (5 003) | (13 190) | (21) | **(18 441)** |
| Depreciation charges | - | (114) | (2 264) | (236) | **(2 614)** |
| Disposals | - | 167 | - | 3 | **170** |
| ***Closing balance*** | **(227)** | **(4 950)** | **(15 454)** | **(254)** | **(20 885)** |
| **Carrying amount as at 31 December 2016** | **1 936** | **1 807** | **898** | **2 588** | 7 229 |

## 12. Other assets

| | **2016 RUR'000** | **2015 RUR'000** |
|---|---|---|
| Receivables and prepayments | 3 952 | 6 041 |
| Taxes prepaid | 3 901 | 11 946 |
| Settlements on broker operations | 183 961 | - |
| Cash restricted for use | - | 136 255 |
| Receivables collectable | 394 946 | - |
| Other | 5 517 | 15 249 |
| Less provision | (266 132) | (983) |
| **Total other assets** | **326 145** | **168 508** |

Currency and maturity analyses of other assets are disclosed in Note 30-31.

## 13. Due to other banks and financial institutions

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Correspondent accounts and demand deposits of other banks | 11 | 9 |
| Loans and deposits of the Banks of Russia | - | - |
| Other loans attracted | 3 | 3 |
| **Total due to other banks** | **14** | **12** |

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 24, 30-31.

## 14. Current accounts and deposits from customers

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **State and public organizations** | | |
| Current/settlement accounts | - | - |
| Term deposits | - | - |
| **Legal entities** | | |
| Current/settlement accounts of commercial organizations | 469 027 | 551 022 |
| Term deposits | 1 359 111 | 938 237 |
| **Individuals** | | |
| Current/demand accounts | 568 420 | 543 538 |
| Term deposits | 5 009 304 | 8 087 669 |
| **Total concentrations of current accounts and customer deposits** | **7 405 862** | **10 120 466** |

Economic sector concentrations within customer accounts are as follows:

| | 2016 RUR'000 | | 2015 RUR'000 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Individuals | 5 577 724 | 75,31% | 8 631 207 | 85,28% |
| Construction | 27 732 | 0,37% | 635 591 | 6,28% |
| Financial services | 490 974 | 6,63% | 34 099 | 0,34% |
| Trade | 256 309 | 3,46% | 241 836 | 2,39% |
| Computers and technologies | 47 697 | 0,64% | 16 942 | 0,17% |
| Education | 340 407 | 4,60% | 181 524 | 1,79% |
| Real estate | 314 821 | 4,25% | 149 032 | 1,47% |
| Other services | 272 969 | 3,69% | 148 514 | 1,47% |
| Other | 77 229 | 1,04% | 81 721 | 0,81% |
| **Total concentrations of current accounts and customer deposits** | **7 405 862** | **100,00%** | **10 120 466** | **100%** |

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

### 15. Debt securities issued

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Bonds | - | - |
| Own promissory notes | 171 292 | 71 014 |
| Savings certificates | 9 653 | 12 607 |
| **Total promissory notes issued** | **180 945** | **83 621** |

As at 31 December 2016, debt securities issued by the Bank include own promissory notes of RUR 165,906 thousand denominated in Russian Roubles, EUR and USD to mature from January 2017 to September 2019 with interest rate from 2% to 10.5% with regard to promissory notes; and savings certificates of RUR 9,638 thousand denominated in Russian Roubles with interest rate from 6% to 14% p.a. to mature in 2017-2018.

As at 31 December 2015, debt securities issued by the Bank include own promissory notes of RUR 68,345 thousand denominated in Russian Roubles and EUR to mature from January 2016 to April 2016 with interest rate from 5.5% to 9.14% with regard to promissory notes; and savings certificates of RUR 12,128 thousand denominated in Russian Roubles with interest rate from 10% to 14% p.a. to mature in 2016-2017.

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

### 16. Payables under repo transactions

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Trade and other payables | 1 127 071 | 1 861 587 |
| **Total** | **1 127 071** | **1 861 587** |

Refer to Note 8 for more details on repo transactions.

### 17. Subordinated borrowing

As at 31 December 2016 and 31 December 2015, the Bank had borrowings in the form of a subordinated borrowing. The subordinated borrowing agreement was entered into in 2007 for the period of 15 years.

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Carrying amount at 01 January | 479 541 | 450 906 |
| Effect of changes in foreign exchange rates | - | 27 740 |
| Accrued interest expense less repaid interest expense | 135 | 895 |
| **Total** | **479 676** | **479 541** |

## 18. Other liabilities

Other liabilities include:

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Trade and other payables | 743 | 1 301 |
| Tax payable | 17 589 | 1 110 |
| Dividends payable | 1 | 1 |
| Employee benefits payable | 7 193 | 3 482 |
| Deferred income | 2 479 | 31 843 |
| Other liabilities | 1 793 | 1 885 |
| **Total** | **29 798** | **39 622** |

Currency and maturity analyses of other liabilities are disclosed in Note 30-31.

## 19. Share capital

The authorised, issued and fully paid share capital include the elements as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Par value** | **Inflation adjusted amount** | **Number of shares** | **Par value** | **Inflation adjusted amount** |
| Ordinary shares | 502 563 280 | 502 563 | 687 040 | 502 563 280 | 502 563 | 687 040 |
| **Total share capital** | 502 563 280 | 502 563 | 687 040 | 502 563 280 | 502 563 | 687 040 |

Retained earnings at 31 December 2016 amounted to RUR 138,135 thousand.

Retained earnings at 31 December 2015 amounted to RUR 343,094 thousand.

## 20. Interest income and expense

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **Interest income** | | |
| Loans and receivables | 1 422 947 | 1 337 567 |
| Due from other banks | 284 | 2 382 |
| Investments held to maturity | 941 | 13 244 |
| Financial assets available for sale | 76 128 | 204 101 |
| Financial assets at fair value through profit or loss | - | - |
| Other interest income | (5 416) | 5 689 |
| **Total interest income** | **1 494 884** | **1 562 983** |

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **Interest expense** | | |
| Term deposits of banks and other financial institutions | (101 264) | (289 118) |
| Current accounts and deposits from customers | (512 576) | (502 879) |
| Debt liabilities issued | (8 581) | (6 711) |
| **Total interest expense** | **(622 421)** | **(798 708)** |
| **Net interest income** | **872 463** | **764 275** |

Other interest income as at 31 December 2016 include, among others, reversal of the previous year.

## 21. Fee and commission income and expense

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on currency control function | 32 837 | 45 843 |
| Commission on settlement transactions | 73 623 | 88 309 |
| Commission on guarantees issued | 7 040 | 12 476 |
| Commission on other transactions | 7 891 | 684 |
| **Commission on other transactions** | **121 391** | **147 312** |
| **Fee and commission expense** | | |
| Commission on currency control function | - | - |
| Commission on cash and settlement transactions | (40 224) | (38 104) |
| Commission on guarantees issued | - | - |
| Commission on broker services | (345) | (320) |
| Expenses of professional participants to security market regarding acquisition and selling of securities, other than consulting and information services | - | - |
| Commission on other transactions | (1 262) | (983) |
| **Total fee and commission expense** | **(41 831)** | **(39 407)** |
| **Net fee and commission income** | **79 560** | **107 905** |

## 22. General and administrative expenses

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Staff costs | (86 501) | (77 823) |
| Rent | (5 339) | (5 512) |
| Advertising | (1 660) | (1 245) |
| Security | (10 936) | (11 539) |
| Insurance | (32 509) | (31 306) |
| Communication, telecommunication and information services | (5 742) | (3 208) |
| Professional services | (8 517) | (4 581) |
| Expenses on transactions with non-current assets held for sale | - | - |
| Expenses on transactions with property received under settlement or pledge agreement | - | - |
| Expenses on transactions with property and equipment and intangible assets | (1 566) | (2 234) |
| Depreciation and amortization | (1 330) | (1 781) |
| Other | (18 422) | (14 058) |
| **Total administrative and other operating expenses** | **(172 522)** | **(153 287)** |

## 23. Income tax

Income tax expense comprises the following:

| | 2016 RUR'000 | 2015 RUR'000 |
|---|---|---|
| Current income tax (expenses)/recovery | 55 146 | (7 642) |
| Deferred income tax expense | - | 24 165 |
| Plus deferred tax liability/asset of prior period | - | - |
| Plus deferred tax liabilities of prior years written off during the reporting period | - | - |
| **Income tax (expense) / recovery for the year** | **55 146** | **16 523** |

The income tax rate applicable to the majority of the Bank's income is 20% (2015: 20%).

The Bank's current activities and balances in the balance sheet items give rise to certain temporary differences between current amounts of some assets and liabilities with the purposes of preparing financial statements and taxation purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20%. Due to this the income tax rate was adjusted as at 31 December 2016 and at 31 December 2015.

## 24. Risk management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operating risks and legal risks. The primary objectives of the financial risk management function are to set risk limits, and then ensure that exposure to risks retains within these limits. The assessment of the risk is the basis for optimal allocation of capital including risks, transaction pricing and performance assessment. The operating and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to mitigate operating and legal risks.

***Credit risk.*** The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The bank monitors such risks on a regular basis; the limits are reviewed annually as a minimum. Limits of credit risks by products, borrowers and groups of borrowers are approved by the Management Board and Board of Directors.

Risk of one borrower including banks and broker companies are subject to additional limits that cover balance and off-balance risks. Limits on the level of the accepted risk are actually monitored on a daily basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Beside that, exposure to credit risk is also mitigated by obtaining collateral of property and securities, corporate and personal guarantees.

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

The Bank analyses loans by maturity and further aging.

The Bank is exposed to repayment risk at the expense of loans with a fixed or flexible interest rate. The Bank's financial performance and equity for the current year and as at the current balance sheet date would not have significantly depend on changes in the rates at early repayment as such loans are carried at amortized cost and the repayment amount corresponds or almost corresponds to the amortized cost of loans to customers.

***Market risk.*** The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The

Management Board of the Bank sets limits on the level of exposure and Department for Financial Planning and Risk Control monitors their compliance on a daily basis.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Market risk management is aimed at managing and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Market risk assessment is performed in accordance with the requirements of Resolution of the Central Bank of Russian of 28 September 2012 No 387-P Order of Assessing Market Risk by Credit Institutions.

***Geographical risk***

Geographical risk analysis enables to consider the concentration of the Bank's assets and liabilities by country characteristics. Namely, most of them are referred to funds placed in the Russian Federation.

The geographical concentration of the Bank's assets and liabilities at 31 December 2016 is set out below:

| | Russia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 339 718 | 14 899 | 594 | **355 211** |
| Mandatory cash balances with the Bank of Russia | 84 089 | - | - | **84 089** |
| Financial assets at fair value through profit or loss | - | - | - | - |
| Held-to-maturity financial assets | - | - | - | - |
| Available-for-sale financial assets | 1 330 329 | - | - | **1 330 329** |
| Due from banks and other financial institutions | 9 384 | | | **9 384** |
| Loans and receivables | 8 757 555 | | | **8 757 555** |
| Property and equipment and intangible assets | 7 229 | | | **7 229** |
| Property temporary used in ordinary activities | | | | - |
| Assets held for sale | | | | - |
| Derivative financial assets | | | | - |
| Other assets | 326 012 | 133 | | **326 145** |
| **Total assets** | **10 854 316** | **15 032** | **594** | **10 869 942** |
| **Liabilities** | | | | |
| Due to other banks and other financial institutions | 14 | | | **14** |
| Current accounts and deposits from customers | 6 892 998 | 35 656 | 477 208 | **7 405 862** |
| Debt securities issued | 180 945 | - | - | **180 945** |
| Payables under repo transactions | 1 127 071 | - | - | **1 127 071** |
| Subordinated borrowing | - | - | 479 676 | **479 676** |
| Deferred tax liability | 1 004 | - | - | **1 004** |
| Derivative financial liabilities | - | - | - | - |
| Other liabilities | 29 798 | - | - | **29 798** |
| **Total liabilities** | **8 231 830** | **35 656** | **956 884** | **9 224 370** |
| **Net gap** | **2 622 486** | **(20 624)** | **(956 290)** | **1 645 572** |

The geographical concentration of the Bank's assets and liabilities at 31 December 2015 is set out below:

| | Russia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 466 074 | 24 104 | 724 | **490 902** |
| Mandatory cash balances with the Bank of Russia | 71 474 | - | - | **71 474** |
| Financial assets at fair value through profit or loss | - | - | - | **-** |
| Held-to-maturity financial assets | 316 924 | - | - | **316 924** |
| Available-for-sale financial assets | 1 909 378 | - | - | **1 909 378** |
| Due from banks and other financial institutions | 190 896 | - | - | **190 896** |
| Loans and receivables | 10 633 554 | - | - | **10 633 554** |
| Property and equipment and intangible assets | 4 044 | - | - | **4 044** |
| Property temporary used in ordinary activities | - | - | - | **-** |
| Assets held for sale | - | - | - | **-** |
| Derivative financial assets | - | - | - | **-** |
| Other assets | 168 508 | - | - | **168 508** |
| **Total assets** | **13 760 852** | **24 104** | **724** | **13 785 680** |
| **Liabilities** | | | | |
| Due to other banks and other financial institutions | 12 | - | - | **12** |
| Current accounts and deposits from customers | 10 044 679 | 54 584 | 21 203 | **10 120 466** |
| Debt securities issued | 83 621 | - | - | **83 621** |
| Payables under repo transactions | 1 861 587 | - | - | **1 861 587** |
| Subordinated borrowing | - | - | 479 541 | **479 541** |
| Deferred tax liability | 125 499 | - | - | **125 499** |
| Derivative financial liabilities | 501 | | | **501** |
| Other liabilities | 39 121 | - | - | **39 121** |
| **Total liabilities** | **12 155 020** | **54 584** | **500 744** | **12 710 348** |
| **Net gap** | **1 605 832** | **(30 480)** | **(500 020)** | **1 075 332** |

***Interest rate risk.*** The Bank 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.

The Bank is exposed to interest rate primarily as a result of granting loans at fixed interest rates and for periods other than periods of receiving loans at fixed rates.

In practice, interest rates are set for a short period of time. Besides interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors of the Bank sets limits on the level of mismatch of interest rate reprising that may be undertaken. Department for Financial Planning and Risk Control monitors compliance with the limits on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

| *Interest rate risk* | 2016 | 2015 |
|---|---|---|
| | Net income/ Equity | Net income/ Equity |
| 100 basic points upward parallel shift | 20 531 | (358) |
| 100 basic points downward parallel shift | (20 531) | 358 |

The Bank monitors interest rates for financial instruments. The table below presents interest rates based on reports analysed by the key management of the Bank as at 31 December 2016:

| | RUR | USD | EUR |
|---|---|---|---|
| **Assets** | | | |
| Available-for-sale financial assets | 10,53% | 6,25% | 0,00% |
| Due from other banks and financial institutions | 0,00% | 0,00% | - |
| Loans and receivables | 13,88% | 9,14% | 9,00% |
| **Liabilities** | | | |
| Deposits of other legal entities | 7,65% | 4,75% | 0,00% |
| Deposits of individuals | 9,69% | 1,74% | 0,97% |
| Debt securities issued | 10,20% | 2,00% | 5,50% |
| Subordinated borrowing | 5,25% | 0,00% | 0,00% |

The table below presents interest rates as at 31 December 2015:

| | RUR | USD | EUR |
|---|---|---|---|
| **Assets** | | | |
| Due from other banks | 0,00% | 0,00% | 0,00% |
| Loans to customers | 14,22% | 9,25% | 9,08% |
| Available-for-sale financial assets | 10,53% | 6,25% | 0,00% |
| Held-to-maturity financial assets | 0,00% | 0,00% | 0,00% |
| **Liabilities** | | | |
| Deposits of other legal entities | 9,96% | 3,75% | 0,00% |
| Deposits of individuals | 12,87% | 4,54% | 4,43% |
| Debt securities issued | 12,70% | 5,50% | 0,00% |
| Subordinated borrowing | 0,00% | 5,25% | 0,00% |

*Foreign exchange risk*

The Bank provides loans denominated in foreign currencies. Depending on cash flows received by borrower, increase in foreign currency rates to the currency of the Russian Federation may adversely affect the borrowers' repayment ability and incurrence of loan losses.

The following table provides movement of the financial performance and equity resulted from likely changes in exchange rates applied at the reporting date with other variables unchanged.

| | 2016 | 2015 |
|---|---|---|
| | **Effect on profit or loss** | **Effect on profit or loss** |
| 30% appreciation of USD | 252 469 | 880 314 |
| 30% depreciation of USD | (252 469) | (880 314) |
| 30% appreciation of Euro | 120 684 | 249 168 |
| 30% depreciation of Euro | (120 684) | (249 168) |

*Liquidity risk.*

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk management is the responsibility of Department for Financial Planning and Risk Control of the Bank.

The Bank seeks to actively support stable funding base comprising due from other banks, corporate deposits of legal entities, placements from individuals and debt securities accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank regularly maintains liquidity management through liquidity analysis of assets with the objective of ensuring that funds will be available to honour obligations as they become due; that certain plans to recover unfavourable financial position exist; that control over balance liquidity ratios are adhered to the regulations. The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia.

Department for Dealing and Inter-bank crediting and Department for Securities ensures an adequate portfolio of short-term liquid assets mainly containing short-term liquid trading securities, deposits in banks and other inter-bank instruments in order to maintain a sufficient liquidity in the Bank in general.

The daily liquid position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by Department for Financial Planning and Risk Control.

The table below shows liabilities as at 31 December 2016 by their remaining contractual maturity. The amounts represent contractual undiscounted cash flows. These undiscounted cash flows differ from the statement of financial position amounts as the amounts are based on the discounted cash flows.

When the amount payable is not fixed, the sum in the table is based on the conditions valid at the balance sheet date. Currency amounts are recalculated at the spot exchange rate at the reporting date.

The table below provides for analysis of the Bank's financial liabilities by maturity as at 31 December 2016:

| | Demand and less than 1 month | 1 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| Due to other banks and financial institutions | 14 | - | - | - | **14** |
| Current accounts and deposits from customers | 1 988 767 | 3 252 874 | 2 002 907 | 189 973 | **7 434 521** |
| Debt securities issued | 16 000 | 40 799 | 1 971 | 122 175 | **180 945** |
| Payables under repo transactions | 1 129 746 | - | - | - | **1 129 746** |
| Subordinated borrowing | - | - | - | 616 130 | **616 130** |
| Deferred tax liability | 1 004 | - | - | - | **1 004** |
| Derivative financial liabilities | - | - | - | - | - |
| Other liabilities | 29 798 | - | - | - | **29 798** |
| **Total liabilities** | **3 165 329** | **3 293 673** | **2 004 878** | **928 278** | **9 392 158** |

The position of the Bank as at 31 December 2015 was as follows:

| | Demand and less than 1 month | 1 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| Due to other banks and financial institutions | 12 | - | - | - | **12** |
| Current accounts and deposits from customers | 1 635 660 | 5 011 463 | 3 781 520 | 2 272 | **10 430 915** |
| Debt securities issued | 34 678 | 41 213 | 9 427 | 362 | **85 680** |
| Payables under repo transactions | 1 868 814 | - | - | - | **1 868 814** |
| Subordinated borrowing | 895 | - | - | 640 297 | **641 192** |
| Deferred tax liability | 125 499 | - | - | - | **125 499** |
| Derivative financial liabilities | 501 | - | - | - | **501** |
| Other liabilities | 38 486 | 176 | 421 | 38 | **39 121** |
| **Total liabilities** | **3 704 545** | **5 052 852** | **3 791 368** | **642 969** | **13 191 734** |

## 25. Capital management

The Central Bank of the Russian Federation sets and monitors the requirements to the capital level of the Bank.

The Bank designates the items as capital in accordance with the laws of the Russian Federation.

Currently, the Central Bank of the Russian Federation requires banks to keep the standard ratio of the capital to assets as risk weighted ("capital adequacy level") as higher of the minimum level. As at 31 December 2016 this minimum level amounts to 10 %. During 2016 and 2015, the adequacy level of the Bank was in accordance with the stated level.

## 26. Off-balance sheet commitments

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| | 2016<br>RUR'000 | 2015<br>RUR'000 |
|---|---|---|
| **Contracted amount** | | |
| Loan and credit line commitments | 59 126 | 90 885 |
| Guarantees issued | 163 010 | 250 734 |
| **Total** | **222 136** | **341 619** |

Many of these commitments may expire or terminate without being funded. Hence, the total outstanding contractual commitments indicated above do not necessarily represent future cash requirements.

## 27. Operating leases

*Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

| | 2016<br>RUR'000 | 2015<br>RUR'000 |
|---|---|---|
| Less than 1 year | 682 | 2 579 |
| Between 1 and 5 years | 14 880 | - |
| **Total** | **15 562** | **2 579** |

The Bank leases a number of premises and equipment under an operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

| | 2016<br>RUR'000 | 2015<br>RUR'000 |
|---|---|---|
| The Bank recognised as an expense from operating leases in the profit and loss: | 5 339 | 5 512 |

## 28. Commitments and Contingencies

### *Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

### *Litigation*

The Bank's management is unaware of any significant actual, pending or threatened claims against the Bank.

### *Taxation contingencies*

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

## 29. Fair value of financial instruments

Fair value is the amount for which as asset could be exchanged, or a liability settled, between knowledgeable, willing partied in an arm's length transaction except for the case of forced sale or liquidation. Fair value of financial instruments is best represented by a quoted market price of the financial market. As there is absence of the market for the majority of the Bank's financial instruments, in order to define their fair value the valuation that takes into account economic conditions and specific risks connected with a particular instrument should be resorted to. The valuations below may not coincide with the amount the Bank is able to receive if a certain portfolio is sold in the market.

The Bank adopts the following methods and assumptions upon measuring the financial instruments:

***Financial instruments at fair value.*** Cash and cash equivalents, financial assets at fair value through profit or loss, financial assets held for trading and held-to-maturity are carried in the statement of financial position at their fair value. For some financial assets available-for-sale, independent market quotations are not available. Fair value of such assets is based on recent sales of shares in companies that have been invested in by third parties, on analysis of other information such as discounted cash flows and financial information on other companies being invested in and on other measurement methods.

***Due from other banks.*** Fair value of cash with floating rate is equal to its carrying amount. Estimated fair value of cash with fixed interest rate is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. In the Bank's opinion, the fair value of due from other banks as at 31 December 2016 and at 31 December 2015 did not significantly differ from their carrying amount. This is due to their short-term nature.

***Loans to customers.*** Loans to customers are measured less impairment provision. Estimated fair value of loans to customers is the discounted amount of expected estimated future cash flows. Expected cash flows are discounted at current market rated to measure fair value. In the Bank's opinion, the fair value of loans to customers as at 31 December 2016 and at 31 December 2015 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

***Due to other banks.*** The fair value of due to other banks to mature within one month is nearly equal to their carrying amount due to a considerably short period of maturity. Due to other banks to mature within periods over one month have a fair value of a present value of future cash flows discounted with market interest rate implicit in similar financial instrument. In the Bank's opinion, the fair value of due to other banks as at 31 December 2016 and at 31 December 2015 was insignificantly different from their carrying amount. It is explained by their considerably short maturities.

***Customer accounts.*** The estimated fair value of customer accounts for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. In the Bank's opinion, the fair value of customer accounts as at 31 December 2016 and at 31 December 2015 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

***Debt securities issued.*** The estimated fair value of debt securities issued with a fixed interest is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. For quoted debt securities issued, the fair value is based on quoted markets.

***Other borrowings.*** The fair value of other borrowings with fixed interest rate and other raised funds for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. The estimated fair value of the other borrowings of the Bank is approximately equal to the carrying amount since the instruments do not have quoted market prices, similar instruments and have been attracted with a flexible rate Libor+5%.

## 30. Maturity analysis

The contractual maturity of assets and liabilities analysis as at 31 December 2016 is set out below: Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

| | Demand and less than 1 month | 1 to 6 months | 6 to 12 months | Over 1 year | Uncertain | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 355 211 | - | - | - | - | **355 211** |
| Mandatory cash balances with the Bank of Russia | 84 089 | - | - | - | - | **84 089** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - |
| Held-to-maturity financial asset | - | - | - | - | - | - |
| Available-for-sale financial assets | - | 4 377 | 21 568 | 1 304 384 | - | **1 330 329** |
| Due from banks and other financial institutions | 9 384 | - | - | - | - | **9 384** |
| Loans and receivables | 80 409 | 2 355 808 | 3 000 055 | 3 025 668 | 3 953 732 | **12 415 672** |
| Property and equipment and intangibles | 7 229 | - | - | - | - | **7 229** |
| Property temporary used in ordinary activities | - | - | - | - | - | - |
| Assets held for sale | - | - | - | - | - | - |
| Derivative financial assets | - | - | - | - | - | - |
| Other assets | 405 671 | 185 523 | 793 | 290 | - | **592 277** |
| **Total assets** | **941 993** | **2 545 708** | **3 022 416** | **4 330 342** | **3 953 732** | **14 794 191** |
| **Liabilities** | | | | | | |
| Due to other banks and financial institutions | 14 | - | - | - | - | **14** |
| Current accounts and deposits from customers | 1 987 492 | 3 239 102 | 1 994 542 | 184 726 | - | **7 405 862** |
| Debt securities issued | 16 000 | 40 799 | 1 971 | 122 175 | - | **180 945** |
| Payables under repo transactions | 1 127 071 | - | - | - | - | **1 127 071** |
| Subordinated borrowing | - | - | - | 479 676 | - | **479 676** |
| Deferred tax liability | 1 004 | - | - | - | - | **1 004** |
| Derivative financial liabilities | - | - | - | - | - | - |
| Other liabilities | 29 798 | - | - | - | - | **29 798** |
| **Total liabilities** | **3 161 379** | **3 279 901** | **1 996 513** | **786 577** | - | **9 224 370** |
| **Net gap** | **(2 219 386)** | **(734 193)** | **1 025 903** | **3 543 765** | **3 953 732** | **5 569 821** |
| **Cumulative gap for 31 December 2016** | **(2 219 386)** | **(2 953 579)** | **(1 927 676)** | **1 616 089** | **5 569 821** | |

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

| | Demand and less than 1 month | 1 to 6 months | 6 to 12 months | Over 1 year | Uncertain | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 490 902 | - | - | - | - | **490 902** |
| Mandatory cash balances with the Bank of Russia | - | - | - | - | 71 474 | **71 474** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - |
| Held-to-maturity financial asset | 310 003 | - | - | 6 921 | - | **316 924** |
| Available-for-sale financial assets | 1 781 274 | - | 7 827 | 120 277 | - | **1 909 378** |
| Due from banks and other financial institutions | 190 896 | - | - | - | - | **190 896** |
| Loans and receivables | 1 041 787 | 3 176 633 | 6 490 709 | 2 637 536 | - | **13 346 665** |
| Property and equipment and intangibles | - | - | - | - | 4 044 | **4 044** |
| Property temporary used in ordinary activities | - | - | - | - | - | - |
| Assets held for sale | - | - | - | - | - | - |
| Derivative financial assets | - | - | - | - | - | - |
| Other assets | 166 790 | 1 120 | 1 581 | - | - | **169 491** |
| **Total assets** | **3 981 652** | **3 177 753** | **6 500 117** | **2 764 734** | **75 518** | **16 499 774** |
| **Liabilities** | | | | | | |
| Due to other banks and financial institutions | 12 | - | - | - | - | **12** |
| Current accounts and deposits from customers | 1 633 047 | 4 901 370 | 3 584 011 | 2 038 | - | **10 120 466** |
| Debt securities issued | 34 509 | 40 159 | 8 637 | 316 | - | **83 621** |
| Payables under repo transactions | 1 861 587 | - | - | - | - | **1 861 587** |
| Subordinated borrowing | 895 | - | - | 478 646 | - | **479 541** |
| Deferred tax liability | 125 499 | - | - | - | - | **125 499** |
| Derivative financial liabilities | 501 | | | | | **501** |
| Other liabilities | 38 486 | 176 | 421 | 38 | - | **39 121** |
| **Total liabilities** | **3 694 536** | **4 941 705** | **3 593 069** | **481 038** | **-** | **12 710 348** |
| **Net gap** | **287 116** | **(1 763 952)** | **2 907 048** | **2 283 696** | **75 518** | **3 789 426** |

The analysis is based on the estimated maturities.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

## 31. Currency analysis

The Bank takes on exposure to effects of fluctuations of exchange rates on its financial position and cash flows. The Management Board of the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and Department for Financial Planning and Risk Control monitor them daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016:

| | RUR '000 RUR | USD '000 RUR | EUR '000 RUR | Other currencies '000 RUR | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 213 272 | 45 575 | 82 135 | 14 229 | **355 211** |
| Mandatory cash balances with the Bank of Russia | 84 089 | - | - | - | **84 089** |
| Financial assets at fair value through profit or loss | - | - | - | - | - |
| Held-to-maturity financial asset | - | - | - | - | - |
| Available-for-sale financial assets | 539 274 | 791 055 | - | - | **1 330 329** |
| Due from banks and other financial institutions | 9 384 | - | - | - | **9 384** |
| Loans and receivables | 8 677 845 | 3 431 063 | 306 764 | - | **12 415 672** |
| Property and equipment and intangibles | 7 229 | - | - | - | **7 229** |
| Property temporary used in ordinary activities | - | - | - | - | - |
| Assets held for sale | - | - | - | - | - |
| Derivative financial assets | - | - | - | - | - |
| Other assets | 407 112 | 185 165 | - | - | **592 277** |
| **Total assets** | **9 938 205** | **4 452 858** | **388 899** | **14 229** | **14 794 191** |
| **Liabilities** | | | | | |
| Due to other banks and other financial institutions | 11 | 3 | - | - | **14** |
| Current accounts and deposits from customers | 3 397 537 | 3 221 640 | 776 502 | 10 183 | **7 405 862** |
| Debt securities issued | 145 038 | 21 230 | 14 677 | - | **180 945** |
| Payables under repo transactions | 758 649 | 368 422 | - | - | **1 127 071** |
| Subordinated borrowing | 479 676 | - | - | - | **479 676** |
| Deferred tax liability | 1 004 | - | - | - | **1 004** |
| Derivative financial liabilities | - | - | - | - | - |
| Other liabilities | 29 798 | - | - | - | **29 798** |
| **Total liabilities** | **4 811 713** | **3 611 295** | **791 179** | **10 183** | **9 224 370** |
| **Net gap** | **5 126 492** | **841 563** | **(402 280)** | **4 046** | **5 569 821** |
| **Cumulative gap for 31 December 2016** | **5 126 492** | **5 968 055** | **5 565 775** | **5 569 821** | |

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2015:

| | RUR '000 RUR | USD '000 RUR | EUR '000 RUR | Other currencies '000 RUR | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 378 057 | 61 286 | 44 283 | 7 276 | **490 902** |
| Mandatory cash balances with the Bank of Russia | 71 474 | - | - | - | **71 474** |
| Financial assets at fair value through profit or loss | - | - | - | - | - |
| Held-to-maturity financial asset | - | 316 924 | - | - | **316 924** |
| Available-for-sale financial assets | 579 146 | 1 330 232 | - | - | **1 909 378** |
| Due from banks and other financial institutions | 96 973 | 27 424 | 66 499 | - | **190 896** |
| Loans and receivables | 6 582 448 | 6 390 158 | 374 059 | - | **13 346 665** |
| Property and equipment and intangibles | 4 044 | - | - | - | **4 044** |
| Property temporary used in ordinary activities | - | - | - | - | - |
| Assets held for sale | - | - | - | - | - |
| Derivative financial assets | - | - | - | - | - |
| Other assets | 32 125 | 132 496 | - | 3 887 | **168 508** |
| **Total assets** | **7 744 267** | **8 258 520** | **484 841** | **11 163** | **16 498 791** |
| **Liabilities** | | | | | |
| Due to other banks and other financial institutions | 8 | 4 | - | - | **12** |
| Current accounts and deposits from customers | 3 495 008 | 5 319 770 | 1 300 343 | 5 345 | **10 120 466** |
| Debt securities issued | 68 562 | - | 15 059 | - | **83 621** |
| Payables under repo transactions | 1 861 587 | - | - | - | **1 861 587** |
| Subordinated borrowing | 479 541 | - | - | - | **479 541** |
| Deferred tax liability | 125 499 | - | - | - | **125 499** |
| Derivative financial liabilities | 501 | | | | **501** |
| Other liabilities | 34 756 | 4 365 | - | - | **39 121** |
| **Total liabilities** | **6 065 462** | **5 324 139** | **1 315 402** | **5 345** | **12 710 348** |
| **Net gap** | **1 678 805** | **2 934 381** | **(830 561)** | **5 818** | **3 788 443** |
| **Cumulative gap for 31 December 2015** | **1 678 805** | **4 613 186** | **3 782 625** | **3 788 443** | **-** |

## 32. Related party transactions

***Transactions with members of the Board of Directors and the management***

The total remuneration to the key personnel for the year ended 31 December 2016 amounted to RUR 12,511 thousand (2015: RUR 15,277 thousand).

The outstanding balances as at 31 December 2016 and as at 31 December 2015 with the related parties were as follows:

| | 2016<br>RUR'000 | 2015<br>RUR'000 |
|---|---|---|
| **Balance Sheet** | | |
| **Assets** | | |
| Loans to customers | 492 793 | 299 239 |
| **Liabilities** | | |
| Current accounts and deposits | 1 535 995 | 858 954 |
| Debt securities issued | - | - |
| **Off balance sheet items** | | |
| Guarantees and warrants issued | - | 26 200 |

Amounts are included in the income statement in relation to related party transactions as follows:

| | 2016<br>RUR'000 | 2015<br>RUR'000 |
|---|---|---|
| **Income Statement** | | |
| Interest income | 41 617 | 90 897 |
| Interest expense | 91 534 | 88 187 |
| Fee and commission income | 29 561 | 48 337 |

## 33. Events subsequent to the reporting date

The Bank considered all the events subsequent to the balance sheet date and made adjustments to the financial statements relevant to such information.

Signed on behalf of the Board of the Bank on 20 April 2017

I.L. Kasyanov
Chairman of the Board

КБ "Гарант-Инвест" (АО)

N.P. Bagdashkina
Chief Accountant