Bank MMA (JSC)

Financial Statements and auditor's report

for the Year Ended 31 December 2016

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Auditor's Report

To the Shareholders of
Bank JSC MMA

Audited entity:

Full name:	Bank Joint Stock Company «Moscow Mortgage Agency»
Short name:	Bank JSC MMA
Address:	4-1, Seliverstov lane, 107045, Moscow, Russia
Main state registration number:	1027739051130

Independent auditor:

Full name :	Limited Liability Company «Intercom-Audit БКР» (Intercom-Audit БКР LLC)
Address:	2-13 3d Yamskogo Polya Str, 125040, Moscow
Main state registration number:	1067746150251
Name of self-regulatory organization of auditors, where the auditor is a member:	Self-regulatory organization of auditors Association «Sodruzhestvo» (CPO AAC)
Number in the Register of Auditors and Audit Organizations:	11606072657

Report on the annual financial statements

We have audited the annual financial statements of Bank JSC MMA, which comprise the statement of financial position as at 31 December 2016 and the related statement of comprehensive income, statements of changes in equity and statement of cash flows for 2016, and notes, comprising short review of basic provisions of accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements
Management of the audited entity is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and for the system of internal controls relevant to the preparation and fair presentation of the 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 annual financial statements based on our audit. We conducted our audit in compliance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with the professional code of ethics and plan and perform the audit to obtain reasonable assurance that 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 annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

Opinion

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

Head of Bank Audit
and IFRS of Credit Institutions
Intercom-Audit БКР LLC
(Qualification certificate No. 02-000030 dated 15.11.2011, issued for an indefinite term; ACCA DipIFR in Russian of March 2006)

E.V.Korotkikh

27 April 2017

(In thousands of Russian Rubles)

Statement of Financial Position as at 31 December 2016

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	5	8 102 026	4 292 790
Obligatory reserves with the CBR		73 354	44 685
Due from banks	6	1 682 400	6 940 308
Loans to customers	7	10 826 883	11 669 579
Financial assets available for sale	8	10 421 267	10 830 764
Long-term assets available for sale	9	150 513	124 309
Investment property	10	523	523
Property, equipment and intangible assets	11	379 838	348 695
Current income tax assets		87 638	111 760
Deferred tax asset	25	84 435	-
Other assets	12	38 137	161 104
Total assets		**31 847 014**	**34 524 517**
Liabilities			
Due to banks	13	82 423	1 138 600
Customer accounts	14	17 812 003	17 441 099
Debt securities issued	15	5 734 042	8 209 869
Deferred tax liability	25	-	40 518
Other liabilities	16	48 106	150 473
Total liabilities		**23 676 574**	**26 980 559**
Equity			
Share capital	17	5 537 679	5 537 679
Additional paid-in capital	17	601 615	601 615
Revaluation reserve for financial assets available for sale		(803)	(43 852)
Retained earnings		2 031 949	1 448 516
Total Equity		**8 170 440**	**7 543 958**
Total liabilities and equity		**31 847 014**	**34 524 517**

Authorized by the Management Board and signed on behalf of the Management Board on 27 April 2017.

Deputy General Director
R.G. Khasanov

Chief Accountant
V.Y. Betnev

Notes on pages 10 through 67 are an integral part of these financial statements.

ИНТЕРКОМ АУДИТ
Для аудиторских заключений

(In thousands of Russian Rubles)

Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	For the year ended on 31 December 2016	2015
Interest income	19	2 714 518	2 730 329
Interest expense	19	(1 887 722)	(1 745 118)
Net interest income		**826 796**	**985 211**
Fee and commission income	20	261 882	195 730
Fee and commission expense	20	(57 031)	(21 329)
Net fee and commission income		**204 851**	**174 401**
Income less expenses from financial assets and liabilities transactions	21	160 373	77 517
Income less expenses from foreign currency transactions		2 098 962	(943 888)
Income less expenses from foreign currency revaluation		(1 333 911)	1 341 300
Provision for contingent liabilities		(10 572)	-
Provision for impairment	22	(449 530)	(924 647)
Other operating income	23	45 212	1 322
Operating income		**1 542 181**	**711 216**
Operating expenses	24	(720 373)	(632 347)
Profit before tax		**821 808**	**78 869**
Income tax expense	25	(209 576)	(51 726)
Profit after tax and before other comprehensive income		**612 232**	**27 143**
Other comprehensive income			
Income (loss) from revaluation of financial assets available for sale		53 811	40 489
Income tax, associated with other components of comprehensive income	25	(10 762)	10 963
Other comprehensive income after tax		**43 049**	**51 452**
Total comprehensive income for the period		**655 281**	**78 595**

Authorized by the Management Board and signed on behalf of the Management Board on 27 April 2017.

Deputy General Director
R.G. Khasanov

Chief Accountant
V.Y. Betnev

Notes on pages 10 through 67 are an integral part of these financial statements.

ИНТЕРКОМ АУДИТ
Для аудиторских заключений

(In thousands of Russian Rubles)

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital	Additional paid-in capital	Revaluation reserve for financial assets available for sale	Retained earnings	Total equity
Balance at 31 December 2014	**5 537 679**	**601 615**	**(95 304)**	**1 421 373**	**7 465 363**
Comprehensive income for the period	-	-	51 452	27 143	**78 595**
Balance at 31 December 2015	**5 537 679**	**601 615**	**(43 852)**	**1 448 516**	**7 543 958**
Comprehensive income for the period	-	-	43 049	612 232	**655 281**
Dividends (Note 18)	-	-	-	(28 799)	**(28 799)**
Balance at 31 December 2016	**5 537 679**	**601 615**	**(803)**	**2 031 949**	**8 170 440**

Authorized by the Management Board and signed on behalf of the Management Board on 27 April 2017.

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R.G. Khasanov

Chief Accountant
V.Y. Betnev

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ИНТЕРКОМ АУДИТ
Для аудиторских заключений

(In thousands of Russian Rubles)

Statement of Cash Flows for the Year Ended 31 December 2016

	For the year ended 31 December	
	2016	**2015**
Cash flows from operating activities		
Interest received	2 686 347	2 537 137
Interest paid	(976 359)	(735 047)
Fee and commission received	249 043	199 228
Fee and commission paid	(56 174)	(21 235)
Net income (expenses) from financial assets at fair value through profit or loss	10 357	-
Net income (expenses) from foreign currency transactions	2 003 655	(862 500)
Other operating income	14 057	1 322
Operating expenses paid	(622 184)	(597 985)
Income taxes paid	(321 169)	(63 444)
Cash flows from operating activities before changes in operating assets and liabilities	**2 987 573**	**457 476**
Increase/decrease in operating assets and liabilities:		
- Net decrease/ (net increase) in required reserves with the CBR	(28 669)	(13 180)
- Net decrease in due from banks	5 070 269	(2 680 017)
- Net increase in loans to customers	533 221	1 716 686
- Net increase in other assets	18 718	(41 703)
- Net increase /(net decrease) in due to banks	(1 052 585)	(665 159)
- Net increase in customer accounts	382 127	11 904 735
- Net decrease in other liabilities	(9 143)	3 061
Net cash flows used in operating activities	**7 901 511**	**10 681 899**
Cash flows from investing activities		
Purchase of financial assets available for sale	(33 541 619)	(14 384 949)
Proceeds from sale of financial assets available for sale	33 126 763	5 254 530
Purchase of property, equipment and intangible assets (Note 11)	(47 648)	(218 033)
Net cash flows from investing activities	**(462 504)**	**(9 348 452)**

ИНТЕРКОМ АУДИТ
Для аудиторских заключений

(In thousands of Russian Rubles)

Statement of Cash Flows for the Year Ended 31 December 2015 (continued)

	For the year ended 31 December	
	2016	2015
Cash flows from financing activities		
Proceeds from issuance of debt securities	4 454 760	5 104 026
Repayment of debt securities	(6 822 089)	(2 480 306)
Paid interest on issued of debt securities	(997 871)	(891 287)
Repayment of financial lease liabilities	-	(717)
Paid dividends	(28 799)	-
Net cash flows from financing activities	**(3 393 999)**	**1 731 716**
Effects of changes in exchange rate of the CBR on cash and cash equivalents	**(235 772)**	**550 081**
Net increase/decrease in cash and cash equivalents	**3 809 236**	**3 615 244**
Cash and cash equivalents as at the beginning of the year	4 292 790	677 546
Cash and cash equivalents as at the end of the year (Note 5)	**8 102 026**	**4 292 790**

Authorized by the Management Board and signed on behalf of the Management Board on 27 April 2017.

Deputy General Director
R.G. Khasanov

Chief Accountant
V.Y. Betnev

Notes on pages 10 through 67 are an integral part of these financial statements.

ИНТЕРКОМ АУДИТ
Для аудиторских заключений

Notes to the financial statements for the year ended 31 December 2016

1. Primary activity of the Bank

Bank JSC MMA (hereinafter referred to as – the Bank) is a credit organization established in the form of open joint-stock company according to the legislation of the Russian Federation since 2000.

The bank carries out the activity on the basis of the following licenses:

- The license for banking operations with means in rubles and foreign currency (without the right of attraction of money from individuals in deposits) No. 3344 of 25.06.2015.
- The license for attraction of funds from individuals in deposits in rubles and foreign currency No. 3344 of 25.06.2015.

The Bank is included in the register of participating banks of deposit insurance system since May 30, 2012 at number 994. The state deposit insurance system guarantees payment of compensation for deposits of individuals in the sum upto 1 400 thousand rubles per one individual in case of recall of a Bank's license or freezing by the Bank of Russia of payments.

The Bank carries out activity in various sectors of the Russian financial markets, including interbank and retail deposits, currency exchange transactions and operations on the stock exchange with debt instruments and bonds, service of private and corporate clients. The bank provides the clients with a wide range of banking services in Russian rubles and foreign currency.

Address of the Bank: 4-1, Seliverstov Lane, 107045, Moscow.

The Bank has no branches and representations in the territory of the Russian Federation and foreign countries. The Bank has one subsidiary office "Mortgage Centre on Baumanskaya" in Moscow and "MMFC of Moscow".

The Bank is not a participant in the banking consolidated group (bank holding).

For December 31, 2016 and 2015 the shareholder of Bank (voting stock of 100%) is the CITY OF MOSCOW represented by MOSCOW CITY PROPERY DEPARTMENT.

Payroll number of personnel of the Bank as of the end of 2016 is 300 people (as of the end of 2015 - 298 people).

The Bank was rated by one of three leading international rating agencies Moody's and Russian National Rating Agency (NRA). The rating of the international rating agency is based on data of the financial statements of the Bank prepared according to International Financial Reporting Standards, the rating of the Russian agency is based on data of the financial statements of the Bank prepared according to Russian accounting standards.

The bank was rated as follows:
- long-term and short-term ratings of bank deposits in foreign and national currency: "Ba3" (stable outlook) and "Not Prime" respectively;
- Baseline Credit Assessment: "b1";
- long-term and short-term of Counterparty risk assessment: "Ba2" and "Not Prime" respectively.

2. Operating environment

The Bank operates primarily in the Russian Federation.

The economy of Russia is demonstrating some characteristics inherent in emerging markets. National economy is especially sensitive to the changes in oil and gas price. Legal, tax and administrative systems continue to develop and admit various interpretation.

During 2016 the low oil prices and further international sanctions imposed in 2014 continued to affect the economic situation in Russia negatively.

At the same time, there were positive changes in the economy:

• the official USD exchange rate established by the Central Bank of the Russian Federation has decreased from 72,8827 RUB/USD to 60,6569 RUB/USD;

• the key interest rate of the Central Bank of the Russian Federation has decreased from 11,0% to 10,0% per annum;

• inflation has decreased and in December, 2016 it was 5,4% (month-over-month of previous year), in December, 2015 it was 12,9% (month-over-month of previous year);

• in September-October the international rating agencies Standard & Poor's and Fitch Ratings have changed the forecast for the ratings of the Russian Federation from "negative" to "stable".

According to estimates of the Bank of Russia, following the results of 2017 a GDP growth is expected, however rates of economic growth will be low. Development and stabilization of positive tendencies need structural transformations and time.

The management of the Bank believes that it undertakes all necessary measures for maintenance of financial stability of the Bank under these circumstances.

At the same time, subsequent development of conditions of implementation of financial and economic activity can differ from the management estimates.

3. Basis of Preparation

These financial statements of the Bank were prepared according to the International Financial Reporting Standards (IFRS) on the basis of historical cost accounting, adjusted for revaluation at fair value of the financial assets available for sale, the financial assets estimated at fair value through profit or a loss, and according to IAS 29 «Financial Reporting in Hyperinflationary Economies».

Reconciliation of the Russian published financial statements (RAS) prepared with International Financial Reporting standards (IFRS). The Bank keeps accounts in compliance with the banking laws of Russia. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. In preparing financial statements in accordance with IFRS, management is required to make judgments and estimates that affect the reported amounts. Areas where such judgments and estimates are most significant for the financial statements are disclosed in Note 33.

3. Basis of preparation (continued)

Record of hyperinflation impact

Before January 1, 2003 the economy of the Russian Federation was characterized by existence of signs of a hyperinflation. In this regard, nonmonetary assets and liabilities before December 31, 2002 and contributions to the equity capital made before December 31, 2002 are adjusted with the use of corresponding cumulative rate of inflation to the historical cost ("adjusted cost") for the period upto December 31, 2002 and including. Profit and expenses from the subsequent replacement, and depreciation expenses of the reporting period are recognized on the basis of the restated cost of these nonmonetary assets and liabilities.

As characteristics of the economic situation in Russia specify that hyperinflation has stopped, since January 1, 2003, the Bank does not apply IAS 29 anymore, being confined to record of cumulative influence of hyperinflation on nonmonetary items of financial statements before December 31, 2002.

Functional and reporting currency.

Functional currency of the Bank is Russian Ruble (RUR). These financial statements are presented in Russian Rubles with figures rounded to the nearest thousand .

Standards, amendments and interpretations which became effective in the reporting year

A number of new standards and amendments became effective on 1 January 2016, but they were not applied by the Bank ahead of schedule. The Bank has started adoption of these standards and amendments, including related amendments to other standards, from their effective date.

New standards and explanations that have not become effective yet

The Bank did not apply in advance new standards, amendments to standards and explanations to the existing standards that were published, but become effective for annual period starting from January 1st, 2017 or later. The Bank is planning to start implementing the listed innovations as soon as they become effective.

IFRS 9 Financial instruments accepted for publication (issued in July, 2014, becomes effective concerning annual periods since January 1st, 2018 or after this date, with retrospective application). IFRS 9 substitutes IAS 39 "Financial instruments: recognition and measurement" and introduces new requirements to classification and measurement of the financial assets including new model of calculation of losses from depreciation for "due credit losses" and a new order of record of hedging operations. The Bank acknowledges that the new standard introduces material changes to the accounting of financial instruments and will most probably influence significantly the financial reports. The Bank did not analyze the influence of these changes.

IFRS 15 Revenue from Contracts with Customers (issued on May 28, 2014 and applies to an annual reporting period beginning on or after 1 January 2018). The new standard introduces the core principle according to which an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Any separate lots of goods or services are to be recognized separately, and all discounts and retrospective discounts concerning the contract price are, as a rule, distributed to separate elements. If amount of remuneration changes for some reason, it is necessary to recognize the minimum amounts if they are not subject to material risk of revision. The expenses related to providing contracts with clients have to be capitalized and amortized for the term during which benefits are received from the contract. Currently the Bank studies provisions of this standard and analyzes their possible influence on financial statements.

IFRS 16 Leases (issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019).

3. Basis of preparation (continued)

Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The lessors recognizes "the right of use" of an asset and corresponding financial liability on balance. The asset has to be amortized during the lease term, and the financial liability is considered at amortized cost. For the lessor accounting remains the same as that is demanded by IAS 17.
Currently the Bank considers provisions of this standard and analyzes their possible influence on financial statements.

There were also published changes to standards and explanations which become effective for annual periods beginning on or after January 1, 2017. The Bank has not analyze yet possible influence of these changes to IFRS on its financial position and results of activity.

Reclassifications of comparative information
Where necessary, certain reclassifications have been made to comparative information for the year 2015 to conform to the changes in presentation in the financial statements for the year 2016 and ensure better presentation in accordance with IFRS. These reclassifications have not affected either the profit for the year or shareholders' equity.

4. Summary of significant accounting policies

A summary of the Bank's accounting policies adopted in the preparation of these financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Consolidated financial statements
The Bank does not prepare consolidated financial statements as since has no subsidiaries.

Foreign currency revaluation
Foreign currency transactions are initially recorded in Russian Rubles using the CBR exchange rates prevailing at the date of the transactions. Any foreign exchange differences between the contractual exchange rates and the CBR exchange rates prevailing at the date of the transactions are recognized in the statement of comprehensive income as net gains from foreign currency transactions.

Foreign-currency monetary assets and liabilities are translated into Russian Rubles using the CBR official exchange rate as of the reporting date. Any foreign exchange differences arising on revaluation of such assets and liabilities are recognized as part of gains and losses as net gains from foreign currency revaluation.

Foreign exchange differences arising on available-for-sale monetary foreign-currency financial assets due to changes in their amortized cost are charged to profit or loss, and other changes in their carrying amount are recorded directly in equity as part of the available-for-sale reserve.

Foreign exchange differences arising on non-monetary foreign-currency financial assets, such as shares carried at fair value through profit or loss, are recorded within profit or loss as net gains from changes in their fair value.

4. Summary of significant accounting policies (continued)

Foreign exchange differences on shares available for sale are recorded in equity as part of the available-for-sale reserve.

As at 31 December 2016 and 2015, the official exchange rates of CBR were 60,6569 rubles and 72,8827 rubles for 1 USD, respectively, and 63,8111 rubles and 79,6972 rubles for 1 Euro, respectively.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and cash on current bank accounts of the Bank. All short-term interbank deposits, other than overnight deposits, are included in due from banks. Amounts of restricted use are excluded from cash and cash equivalents.

Required reserves with the CBR
Required reserves are funds deposited with the Central Bank of Russia and not designated for financing of the Bank's current operations. Credit institutions are required to keep interest-free deposits with the Central Bank of Russia (required reserves). The amount of such deposits depends on the amount of money loaned out. Withdrawal of such deposits is restricted by law. Accordingly, they are excluded from cash and cash equivalents for the purpose of the statement of cash flows.

A regular way purchase or sale of financial assets is recognized on a trade date being the date when the Bank assumes the liability to purchase or sell the asset.

A financial asset is derecognized when the contractual rights to receive the cash flows of the financial asset expire, or when the Bank transfers its contractual rights to receive the cash flows of the financial asset and the Bank transfers substantially all the risks and rewards of ownership of the asset.

Financial assets
Financial assets of the Bank include financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, and available-for-sale financial assets. Management classifies financial assets at initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments are also classified in this category.

Financial assets are designated at initial recognition as at fair value through profit or loss if they are managed and their performance is evaluated on the basis of their fair value.

Financial assets at fair value through profit or loss are initially and subsequently carried at fair value measured using quoted prices in an active market or various valuation techniques.

4. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss are initially and subsequently carried at fair value measured using quoted prices in an active market or various valuation techniques.

Realized and unrealized gains and losses arising from transactions with financial assets at fair value through profit or loss are recognized in statement of comprehensive income in the period in which they occur as net gains from financial assets held for trading or financial assets at fair value through profit or loss. Interest income on financial assets at fair value through profit or loss is recognized in statement of comprehensive income as interest income from financial assets at fair value through profit or loss.

Dividends on equity instruments are presented in statement of comprehensive income as dividend income of the period in which the Bank's right to receive payment of the dividend is established.

Financial assets at fair value through profit or loss are not a subject to reclassification in another category, except for the derivative financial assets intended for trade. If concerning a derivative financial asset available for trade, the Bank has no more intention to sell it in the near future, it can be reclassified from category of financial assets at fair value through profit or loss in the following cases:

- financial asset, corresponding to the definition of credits and receivables, can be reclassified in the category of credits and receivables if the Bank has intention and opportunity to retain this asset in the near future or before maturity;
- other financial assets can be reclassified in the category available for sale or held to maturity only in rare cases.

Financial assets are reclassified at fair value for date of reclassification. Profit and expenses recognized earlier in statement of comprehensive income are not reversed. Fair value of a financial asset for date of reclassification becomes its new historical or amortized cost.

Reclassifications in the category of financial assets at fair value through profit or a loss are not allowed.

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 financial assets the Bank intends to sell immediately or in the short term, which are classified as held for trading; financial assets designated at initial recognition as at fair value through profit or loss; and financial assets designated at initial recognition as available for sale.

Loans and receivables include due from banks and loans to customers and are recognized from the date when cash is issued to the borrower.

Loans and receivables are initially recognized at fair value plus transaction costs. Upon initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

4. Summary of significant accounting policies (continued)

Loans originated at interest rates which differ significantly from market rates are remeasured at origination to their fair values, being future interest payments and principal repayments discounted at market interest rates for similar loans.

The difference between the fair value and the nominal value at origination is recognized in profit or loss in the period of origination The carrying amount of such loans is subsequently adjusted for amortization of the above difference using the effective interest method, and the related expense is recorded as interest income in the statement of comprehensive income.

Financial assets available for sale

Financial assets are classified as available for sale if they are acquired with an intention to hold them for an indefinite period and may be sold to meet liquidity requirements or in response to changes in interest rates, exchange rates or equity instrument prices. Where the intention or capacity to hold available-for-sale financial assets changes, an entity may reclassify them to the held-to-maturity investments category. An entity may also reclassify available-for-sale financial assets to the loans and receivables category if they qualify as loans and receivables at the date of reclassification and the entity has an intention and capacity to hold them for the foreseeable future or until maturity.

Available-for-sale financial assets are initially recorded at fair value plus transaction costs and subsequently measured at fair value determined based on current quoted market prices.

If the market for the financial asset is not active, the Bank derives its fair value from valuation techniques commonly used by market participants, such as valuation techniques based on recent arm's length market transactions with similar instruments or discounted cash flow analysis.

Financial assets that are not quoted in an active market and do not have fixed maturities are recorded at cost less provision for impairment, unless there are other appropriate and reliable methods of reasonably estimating their fair value.

Interest income on financial assets available for sale is recognized in profit or loss as interest income from financial assets available for sale. Dividends on equity instruments are recognized in profit or loss as dividend income of the period in which the Bank's right to receive payment of the dividend is established.

Unrealized gains and losses arising from changes in fair value of available-for-sale financial assets are recognized directly in equity within the relevant revaluation reserve until they are derecognized or impaired, at which time the accumulated unrealized gains or losses are transferred to profit or loss and recorded as net gains from financial assets available for sale.

Borrowings

Borrowings are initially measured at fair value, which includes the amount of received funds less transaction costs.

4. Summary of significant accounting policies (continued)

Subsequently borrowings are measured at depreciation cost, and the difference between the amount of received funds less transaction costs and the repayment cost is recorded in profit and loss for the period of borrowing using the method of effective interest.

Borrowings with interest rate different from market interest rates are assessed when they are received at fair value which includes future interest payments and the amount of the main debt, discounted with regard to the market interest rates for similar borrowings. The difference between the fair value and the nominal value of the borrowings when they are received is recorded in statement of comprehensive income.

Subsequently carrying amount of borrowings is adjusted with regard to depreciation of primary income/loss on borrowings, and respective expenses are recorded as interest expense in profit and loss with regard to effective interest rate.

Borrowings include due to banks, customers' accounts, issued debt securities, subordinated debts.

Financial liability is taken off the books, when the contractual obligation is fulfilled, cancelled or its term has expired. The difference between the carrying value of a financial liability settled or passed to another party and a repaid cross reimbursement is recorded in profit and loss as net profit from financial liabilities settlement.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount is recorded in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to offset or to realize the asset and settle the liability simultaneously.

Recognition of income and expense
Interest income and expense are recorded in profit or loss on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. 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, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not considering future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Upon partial derecognition of a financial asset or a group of similar financial assets due to impairment, interest income is accrued based on the reduced carrying amount using the interest rate applied for discounting future cash flows in order to determine the amount of impairment loss.

Fee and commission income and expense and other income and expense are recognised on an accrual basis over the period of services.

4. Summary of significant accounting policies (continued)

Impairment of financial assets measured at amortized cost

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is an 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 if a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank considers the following loss events as objective evidence that a financial asset or group of assets is impaired :

- default or delinquency in interest or principal payment;
- significant financial difficulties of the borrower or the issuer;
- a breach of contract;
- significant adverse changes in the competitive position of the borrower or the issuer;
- a considerable decline in the fair value of the collateral..

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which it is or continues to be recognized are not included in a collective assessment of impairment.

If the Bank determines that there is objective evidence of impairment loss on financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is recognized in profit or loss. For floating rate loans, the amount of impairment loss is measured using the effective interest rate specified in the instrument. As a practical expedient, the Bank may measure impairment of a financial asset measured at amortized cost on the basis of an instrument's fair value using an observable current market price.

The calculation of the present value of the estimated future cash flows of a collateralized 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.

For the purpose of collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics (on the basis of a credit risk evaluation or grading process that considers asset type, economic sector, geographical location, collateral type, past-due status and other relevant factors).

4. Summary of significant accounting policies (continued)

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status and other factors that are indicative of incurred losses in the group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Movements in provisions for impairment of financial assets are recognised in profit or loss for the corresponding period. When a loan is uncollectible, and the collateral has been sold or transferred to the Bank, the financial asset is written off against the related provision for impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for impairment in the statement of comprehensive income.

Impairment of available-for-sale financial assets
Financial assets/groups of financial assets available for sale are assessed for impairment at the end of each reporting period. In the case of equity instruments classified as available for sale, objective evidence of impairment includes a considerable (more than 20%) or prolonged (more than 6 months) decline in the fair value of the instrument below its cost.

Volatility of the market for the instrument is also taken into account. If there is evidence of impairment of a financial asset available for sale, accumulated loss determined as the difference between the acquisition cost and current fair value of the asset less any impairment loss on this asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale are not reversed in profit or loss; increase in their fair value is after impairment is recognised directly in equity.

Debt instruments classified as available for sale are assessed for impairment using the same criteria as those for financial assets carried at amortised cost.

If, in a subsequent period, the fair value of an impaired debt instrument classified as available for sale increases, and the increase can be related objectively to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed in statement of comprehensive income .

Restructured loans
The Bank seeks ways to restructure problem loans before foreclosure.

4. Summary of significant accounting policies (continued)

Such restructuring may include rescheduling of the existing loan. Once a loan has been rescheduled, it is no longer past-due. Restructured loans continue to be assessed for impairment using their original effective interest rate.

Long-term assets available for sale

Long-term assets are classified as "available for sale" if compensation of its balance cost results from sale, but not by means of continued use. A long-term asset (or disposal group) is classified as available for sale when performing all following criteria:

- a long-term asset (or disposal group) is ready to immediate sale in its current condition;

- there is a high probability of sale of the long-term asset (or disposal group) which is confirmed by existence of the decision (plan) on sale of the long-term asset approved by the organization (or disposal group), actual following of the organization this decision (plan) and search of a buyer of the long-term asset (or disposal group) at the price comparable to its current fair value;

- the term necessary for sale is expected to be no more than one year from the date of classification of the long-term asset (or disposal group) available for sale.

Depreciation of long-term assets (long-term assets that are a part of a disposal group) stops from the moment of their classification as available for sale or reallocation.

The long-term assets (or disposal group) available for sale or reallocation are estimated on the smallest of their balance and fair costs minus expenses on sale or reallocation.

Additional expenses which are directly related to disposal of a long-term asset (or disposal group), except for the expenses for attraction of financing including interests and expenses on income tax belong to expenses on sale or reallocation.

Investment property

Investment property is recognized at historical cost minus accumulated amortization and depreciation (where it is necessary). Historical cost includes expenses which are directly related to acquisition of objects.

The subsequent expenses are included in the balance cost of an asset only when there is a high probability that the Bank will receive future economic benefits concerning this object, and the historical cost of this object can be authentically estimated. All other costs of operation and maintenance are reflected in structure of other operating expenses if and when they come.

In case of signs of depreciation of investment property the assessment of its recoverable amount is carried out which is defined as the biggest of fair value minus sale costs and the cost received as a result of their use. Reduction of balance cost of investment property to the recoverable amount is reflected in the statement of comprehensive income as expense from depreciation of investment property.

Depreciation is accrued during useful life with use of straight-line basis of historical cost to the residual value of investment property. Land plots are not a subject to depreciation.

4. Summary of significant accounting policies (continued)

If the Bank starts using investment property, it is reclassified in the category of fixed assets, and the subsequent charge of depreciation is made on its balance cost for date of reclassification.

If the object of fixed assets becomes investment property because the way of its use has changed, the subsequent charge of depreciation is made from its balance cost for date of reclassification.

Property under construction or development for future use as investment property is classified as investment property.

Property and equipment
Property and equipment are recorded at historical or recalculated cost (see section "Record of hyperinflation impact" in Note 3) less accumulated depreciation and impairment provision, where necessary. Initial cost includes all costs related to the purchase of the property and equipment items.

Subsequent costs are included in the carrying amount of the asset or recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures for the repairs and maintenance of the item are recognized in other operating expenses as incurred.

Depreciation is calculated on a straight-line basis of their historical or revalued cost to residual value with use of the following annual norms of depreciation:

2% – buildings,
20% – motor vehicles,
10% – 34,3% – office and computer equipment,
4% – 44,0% – special bank equipment and other.

Residual values and useful lives of items of property and equipment are reviewed at each year-end and adjusted as appropriate.

Depreciable assets are assessed for impairment when events or circumstances occur indicating that their carrying amount may not be recoverable. The asset's carrying amount is reduced to its recoverable amount if the asset's carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. In such a case, revaluation surplus (if any) is eliminated, and the remaining difference between the asset's carrying amount and recoverable amount is recognized immediately in profit or loss as an impairment loss.

Income or expenses resulting from plant assets disposals are defined on the basis of their balance cost and are considered in statement of comprehensive income.

Intangible assets
Intangible assets include identified non-monetary assets without a physical form.

The intangible assets acquired separately are initially recorded at cost value. After initial recognition intangible assets are reflected at cost value less the accumulated amortization and accumulated losses from depreciation. Intangible assets have definite and indefinite useful life.

Intangible assets with definite useful life will be amortized during useful life and analyzed regarding depreciation in case of possible depreciation of an intangible asset.

4. Summary of significant accounting policies (continued)

Amortization expenses on intangible assets with definite useful life are reflected in the statement of comprehensive income in the structure of expenses on intangible assets. Intangible assets with indefinite useful life are not amortized. They are annually analyzed regarding depreciation. Useful life of an intangible asset with indefinite useful life is analyzed regarding circumstances validating the existing assessment of the useful life of the asset. Otherwise, useful life is prospectively changed from indefinite to definite.

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership.

Where the Bank acts the lessee, it recognizes lease payments as other operating expenses in the statement of comprehensive income in structure of other operating expenses over the lease term.

Where the Bank is the lessor, it presents assets held for operating leases on the statement of financial position according to the nature of the asset. Rental income under an operating lease is recognized as other operating income in the statement of comprehensive income over the lease term in structure of other operating expenses.

Initial direct costs incurred by the Bank to earn rentals are recognized as an expense in the statement of comprehensive income, in the period in which they are incurred.

Finance leases

Where the Bank is the lessee, initially finance leases are recorded as an asset and a liability at the lower of the fair value of leased asset and the present value of the minimum lease payments.

Discount rate is the interest rate implicit in the lease. Minimum finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge on the leased asset is allocated through net investment method (before tax), that includes a constant rate of return over the lease term.

Share capital

Share capital is presented at nominal or restated value (Note 3, "Record of hyperinflation impact").

When the Bank redeems shares, the sum of the paid compensation reduces share capital and is reflected before their realization as treasury stock. When subsequently these shares are realized, the sum of the received compensation is included in share capital.

Additional paid-in capital

Additional paid-in capital represents excess of contributions to the capital over par value of shares issued and is reflected at restated cost ("Record of hyperinflation impact" in Note 3).

4. Summary of significant accounting policies (continued)

Dividends
Dividends are recognized as a decrease of retain earning in the period in which they were declared by the Bank's shareholders in a general meeting. Dividends declared after the end of the reporting period are disclosed in events after the reporting period. Dividends and other distributions of profit are paid on the basis of the financial statements prepared in accordance with the Russian legislation.

Derivative financial instruments
Derivative financial instruments including currency exchange contracts are initially recorded in the statement at historical cost (including transaction costs), and subsequently are remeasured at fair value. Fair value is calculated on the basis of the quoted market prices. All derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in fair value of derivatives are recognized as net gains from foreign currency transactions. The Bank does not use derivatives for hedging purposes.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts issued are initially recognized at fair value confirmed as a rule by the amount of commission received and subsequently measured at the higher of the amount: (1) initially recognized less cumulative amortization of fee and commission income charged to profit or loss over the period of guarantee using a straight-line method, and (2) the best estimate of the expenditures expected to be required to settle financial guarantees existing at the end of the reporting period. This estimate is made on the basis of historical loss experience for similar transactions and accompanied by management judgments.

Provisions
Provisions are recognized if the Bank has a present liability (legal or constructive) as a result of a past event, and it is more probable that an outflow of economic benefits will be required to settle the liability, and the sum of the liability can be authentically estimated.

Payroll and related contributions
The cost of wages and salaries, contributions the Bank pays into the state pension and social insurance funds, paid vacations and sick leaves, bonuses and nonmonetary benefits is recognised as the employees render the service. Contributions into the state pension and social insurance funds are calculated as a percentage of the current payroll and included in the payroll cost in the period in which the payroll was recorded.
The Bank does not have any other pension plans apart from contributions to the state pension scheme of the Russian Federation.

Income taxes
Income tax expense is recorded in the Bank's financial statements in accordance with the applicable Russian laws and regulations.

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4. Summary of significant accounting policies (continued)

Current tax expense is calculated on the basis of estimated taxable profit for the year using tax rates that have been enacted by the end of the reporting period. Tax expense, other than income tax expense, is recognized in operating expenses.

Deferred income tax is calculated, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for the financial statements. Deferred tax assets are analyzed at each reporting date and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted in this period or are substantively enacted at the reporting date.

Segmental reporting

Segmental reporting is a separate component of the Bank including the activity allowing to gain income and to carry expenses which results of operating activities on a regular basis are analyzed by the person responsible for taking operational decisions, with the aim of making decisions on distribution of resources on segments and for assessment of their activity and concerning which separate financial information is available.

Segments reveal separately if their income, financial result or total assets make not less than ten percent of total income, total financial result or total assets of all segments of the Bank. Concerning the segments which do not meet the requirements given above but which can be integrated by the nature of activity, services, an analysis is carried out regarding compliance to the requirements on reflection as reporting segments at such aggregated level.

According to IFRS 8 "Operating Segments" the Bank defined operational segments: crediting of legal entities, mortgage to individuals, operations with securities. Disclosure on segments is presented on the basis of these business lines coordinated with IFRS, if necessary corrected on intersegment reallocation.

5. Cash and cash equivalents

	31 December	
	2016	**2015**
Cash on hand	401 004	559 898
Cash balances with the CBR (other than obligatory reserves)	6 968 947	46 484
Correspondent accounts and overnight deposits with banks	143 230	1 375 916
- the Russian Federation	*120 638*	*767 009*
- other countries	*22 592*	*608 907*
Other placements in financial institutions	588 845	2 310 492
Total cash and cash equivalents	**8 102 026**	**4 292 790**

(In thousands of Russian Rubles)

6. Due from banks

	31 December 2016	31 December 2015
Current loans and deposits in other banks	1 500 415	1 650 495
Discounted bills in other banks	180 125	2 189 034
Deposits in CBR	-	3 100 000
Other placements with banks	1 860	779
Total due from banks	**1 682 400**	**6 940 308**

7. Loans to customers

	31 December 2016	31 December 2015
Trade credits to legal entities secured	6 549 822	5 357 124
Credits to individuals	6 113 074	7 686 994
Total loans and advance payments to customers before provision for impairment	**12 662 896**	**13 044 118**
Provision for impairment	(1 836 013)	(1 374 539)
Total loans to customers	**10 826 883**	**11 669 579**

The dynamics of provision for impairment of credits and advance payments to customers was the following :

	Trade credits to legal entities unsecured	Trade credits to legal entities secured	Credits to individuals - mortgage	Other financial receivables	Total
Balance at 31 December 2014	**(462 290)**	**(309 019)**	**(209 599)**	**(895)**	**(981 803)**
Reversal/accrual of provision for the year	102 894	(1 043 499)	(28 171)	895	(967 881)
Written off for the year classified as bad	359 396	215 749	-	-	575 145
Balance at 31 December 2015	**-**	**(1 136 769)**	**(237 770)**	**-**	**(1 374 539)**
Reversal/accrual of provision for the year	-	(477 654)	16 180	-	(461 474)
Balance at 31 December 2016	**-**	**(1 614 423)**	**(221 590)**	**-**	**(1 836 013)**

(In thousands of Russian Rubles)

7. Loans to customers (continued)

The structure of loans and advance payments to customers on branches of economy is presented below :

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
Individuals	6 113 074	48.3%	7 686 994	58.9%
Trade and services	2 368 598	18.7%	630 726	4.8%
Construction	1 842 743	14.6%	1 078 100	8.3%
Real estate business	786 859	6.2%	2 466 674	18.9%
Transport and connection	333 887	2.6%	102 142	0.8%
Production	308 808	2.4%	1 078 179	8.3%
Other	908 927	7.2%	1 303	-
Total loans and advance payments to customers before provision for impairment	**12 662 896**	**100.0%**	**13 044 118**	**100.0%**
Provision for impairment	(1 836 013)	-	(1 374 539)	-
Total	**10 826 883**	-	**11 669 579**	-

As of the reporting date December 31, 2016 RUR 5 272 134 thousand or 41,6% of the gross credit portfolio of the Bank before provision for impairment account for ten largest borrowers (groups of related borrowers) (2015: RUR 5 051 898 thousand or 38,7%).

The information below presents mortgage security as at December 31, 2016:

	Trade credits to legal entities secured	Credits to individuals	Total
Credits unsecured	-	308 356	**308 356**
Credits secured:			
Estate property	2 690 811	4 325 724	**7 016 535**
Proprietary rights	2 402 935	1 478 994	**3 881 929**
Securities	300 000	-	**300 000**
Motor vehicles	221 426	-	**221 426**
Equipment	818 168	-	**818 168**
Guarantees	116 482	-	**116 482**
Total loans and advance payments to customers before provision for impairment	**6 549 822**	**6 113 074**	**12 662 896**

(In thousands of Russian Rubles)

7. Loans to customers (continued)

The information below presents mortgage security as at December 31, 2015:

	Trade credits to legal entities secured	Credits to individuals	Total
Credits unsecured	-	335 854	**335 854**
Credits secured:			
Guarantees	57 986	12 149	**70 135**
Estate property	2 724 581	4 690 812	**7 415 393**
Proprietary rights	2 096 935	2 648 179	**4 745 114**
Securities	368 680	-	**368 680**
Other	108 942	-	**108 942**
Total loans and advance payments to customers before provision for impairment	**5 357 124**	**7 686 994**	**13 044 118**

Information on quality of credits and advance payments to customers estimated regarding depreciation on an individual basis as at December 31, 2016 is given below :

	Loans before provision for impairment	Provision for impairment	Loans after provision for impairment	Impairment loss regarding loans amount before impairment
Trade credits to legal entities secured:	**6 549 822**	**(1 614 423)**	**4 935 399**	**24.6%**
- demanding monitoring	4 236 318	(84 728)	4 151 590	2.0%
- subprime	351 540	(87 885)	263 655	25.0%
- doubtful	1 043 968	(523 814)	520 154	50.2%
- dead	917 996	(917 996)	-	100.0%
Credits to individuals:	**430 390**	**(153 544)**	**276 846**	**35.7%**
- subprime	205 613	(8 682)	196 931	4.2%
- doubtful	116 165	(46 882)	69 283	40.4%
- dead	108 612	(97 980)	10 632	90.2%
Total loans and advance payments to customers estimated regarding depreciation on an individual basis	**6 980 212**	**(1 767 967)**	**5 212 245**	

Information on quality of credits and advance payments to customers estimated regarding depreciation on aggregated basis as at December 31, 2016 is given below :

	Loans before provision for impairment	Provision for impairment	Loans after provision for impairment	Impairment loss regarding loans amount before impairment
Credits to individuals:	**5 682 684**	**(68 046)**	**5 614 638**	**1.20%**
- performing	4 122 024	(18 898)	4 103 126	0.5%
- demanding monitoring	1 492 205	(40 399)	1 451 806	2.7%
- subprime	68 455	(8 749)	59 706	12.8%
Total loans and advance payments to customers estimated regarding depreciation on aggregated basis	**5 682 684**	**(68 046)**	**5 614 638**	

(In thousands of Russian Rubles)

7. Loans to customers (continued)

Information on quality of credits and advance payments to customers estimated regarding depreciation on an individual basis as at December 31, 2015 is given below :

	Loans before provision for impairment	Provision for impairment	Loans after provision for impairment	Impairment loss regarding loans amount before impairment
Trade credits to legal entities unsecured:	**5 357 124**	**(1 136 769)**	**4 220 355**	**21.2%**
- demanding monitoring	3 874 401	(77 489)	3 796 912	2.0%
- subprime	302 236	(166 230)	136 006	55.0%
- dead	1 180 487	(893 050)	287 437	75.7%
Credits to individuals:	**289 213**	**(131 931)**	**157 282**	**45.6%**
- subprime	106 257	(4 053)	102 204	3.8%
- doubtful	103 567	(48 489)	55 078	46.8%
- dead	79 389	(79 389)	-	100.0%
Total loans and advance payments to customers estimated regarding depreciation on an individual basis	**5 646 337**	**(1 268 700)**	**4 377 637**	

Information on quality of credits and advance payments to customers estimated regarding depreciation on aggregated basis as at December 31, 2015 is given below :

	Loans before provision for impairment	Provision for impairment	Loans after provision for impairment	Impairment loss regarding loans amount before impairment
Credits to individuals	**7 397 781**	**(105 839)**	**7 291 942**	**1.43%**
- performing	4 677 324	(23 222)	4 654 102	0.5%
- demanding monitoring	2 651 176	(71 796)	2 579 380	2.7%
- subprime	66 917	(9 639)	57 278	14.4%
- doubtful	2 364	(1 182)	1 182	50.0%
Total loans and advance payments to customers estimated regarding depreciation on aggregated basis	**7 397 781**	**(105 839)**	**7 291 942**	

Information on quality of credits and advance payments to customers is presented by the following categories:

performing - bank reserve requirements from 0% to 2%;

demanding monitoring - bank reserve requirements from 2% to 3%;

subprime - bank reserve requirements from 3% to 40%;

doubtful - bank reserve requirements from 40% to 75%;

dead - bank reserve requirements from 75% to 100%.

Bank reserve requirements represents a reserve share for depreciation from the total amount of the credit portfolio on this group of the credits with similar characteristics of credit risk, or a reserve share for depreciation from the total amount of the credit estimated on an individual basis.

(In thousands of Russian Rubles)

7. Loans to customers (continued)

Upon the demand of the Regulator, in Q1 2016 the Bank created in addition reserves on possible losses on loans of 351 350 thousand rubles that did not affect the size of capital of the Bank, did not lead to violation of obligatory standards and did not affect ability of the Bank to fulfill liabilities to investors and creditors.

Information on fair value security of credits and advance payments of customers as at December 31, 2016 is given below:

	Trade credits to legal entities secured	Credits to individuals	Total
Commercial and residential real estate	1 711 174	17 773 574	**19 484 748**
Land	1 125 385	33 243	**1 158 628**
Property right	4 019 861	3 015 776	**7 035 637**
Securities, including issued by the Bank	176 400	-	**176 400**
Motor vehicles and other	897 367	-	**897 367**
Guarantees	8 635 942	21 760	**8 657 702**
Total fair value security on loans and advance payments to customers	**16 566 129**	**20 844 353**	**37 410 482**

Information on fair value security of credits and advance payments of customers as at December 31, 2015 is given below:

	Trade credits to legal entities secured	Credits to individuals	Total
Commercial and residential real estate	3 573 981	19 645 169	**23 219 150**
Land	62 044	27 127	**89 171**
Property right	4 053 098	4 766 657	**8 819 755**
Securities, including issued by the Bank	1 229 725	-	**1 229 725**
Motor vehicles and other	40 315	-	**40 315**
Guarantees	6 752 493	102 000	**6 854 493**
Total fair value security on loans and advance payments to customers	**15 711 656**	**24 540 953**	**40 252 609**

The amounts presented in the tables given above show pledge, approved by the pledgee and the pledger, i.e. assessed valuation of security and it is not necessarily that they represent fair value of security. The pledge value of security is defined by the market cost of real estate that is determined by an independent appraiser from among qualified by the Bank. Besides pledge of real estate, for the credits to individuals repurchased by the Partner Banks within the production stage of Moscow mortgage program, the Partner Banks provide a guarantee in full extent of liabilities of borrowers under credit agreements.

(In thousands of Russian Rubles)

8. Financial assets available for sale

	31 December	
	2016	**2015**
Unpledged measured at fair value:		
GOVOZ, OFZ	2 095 216	-
Municipal bonds	103 600	-
Corporate bonds	4 536 997	5 662 438
Corporate eurobonds	3 685 454	3 573 891
Unpledged measured at cost:		
Corporate eurobonds	-	1 610 540
Provision for impairment of available-for-sale financial assets	-	(16 105)
Total financial assets available for sale	**10 421 267**	**10 830 764**

For December 31, 2016 the debt securities available for sale are represented by interest-bearing securities with face value in rubles of the Russian Federation and US dollars having the quotation in the active market with maturity period from 2017 to 2031, the rate of coupon income varies from 3,5% to 15,0% depending on release (2015: maturity periods from 2016 to 2030, the rate of coupon income varies from 5,00% to 17,00% depending on issue).

For December 31, 2015 corporate eurobonds of B&N Finance Limited (OJSC "BINBANK") were not listed, are considered at cost in view of lack of reliable methods of reasonable calculation of their fair value, maturity period of bonds is 2016.

The analysis of change of provision for impairment is given below:

	2016	2015
Provision for impairment of available-for-sale financial assets as at January 1	**(16 105)**	-
Recovery /(creation) of reserves	16 105	(16 105)
Provision for impairment of available-for-sale financial assets as at December 31	-	**(16 105)**

As at December 31, 2016 corporate bonds with fair value of RUR 893 950 thousand, OFZ at fair value of RUR 1 402 208 thousand are blocked as security on the raised funds from Bank of Russia (2015: corporate bonds with fair value of RUR 870 572thousand). The actual financial borrowing from Bank of Russia under the specified security as of reporting dates was not carried out.

During 2016 and 2015 the Bank made no reclassifications for financial assets available for sale and investments held to maturity. There were also no reclassifications of financial assets available for sale in category of loans and receivables.

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9. Long-term financial assets available for trade

As at December 31, 2016 the Bank classified one apartment, six parking units received under settlement agreements and in a judicial proceeding on earlier granted loans as assets available for trade, fair value of which as at the reporting date was RUR 150 513 thousand.

As at December 31, 2015 the Bank classified four apartments, eight non-residential buildings, seven parking units received under settlement agreements and in a judicial proceeding on earlier granted loans as assets available for trade, fair value of which as at the reporting date was RUR 124 309 thousand.

10. Investment property

As at December 31, 2016 and 2015 investment property is presented by the land plot that the Bank got with the aim of revenue generation from capital gain, fair value of which is RUR 523 thousand.

11. Property, equipment and intangible assets

	Buildings	**Office and computer equipment**	**Motor vehicles**	**Special equipment and other**	**Intangible assets**	**Total**
Cost						
Balance at 1 January 2016	134 220	276 552	4 256	13 772	258	**429 058**
Additions for the year	-	1 241	-	638	44 769	**47 648**
Reclassification	-	-	-	-	66 101	**66 101**
Disposals for the year	-	(108)	-	-	-	**(108)**
Balance at 31 December 2016	**134 220**	**277 685**	**4 256**	**14 410**	**112 128**	**542 699**
Accumulated depreciation						
Balance at 1 January 2016	21 339	47 483	3 214	8 237	90	**80 363**
Depreciation charge (Note 24)	2 688	59 065	288	1 672	18 816	**82 529**
Disposals for the year	-	(31)	-	-	-	**(31)**
Balance at 31 December 2016	**24 027**	**106 517**	**3 502**	**9 909**	**18 906**	**162 861**
Net book value at 31 December 2016	**110 193**	**171 168**	**754**	**4 501**	**93 222**	**379 838**

(In thousands of Russian Rubles)

11. Property, equipment and intangible assets (continued)

	Buildings	Office and computer equipment	Motor vehicles	Special equipment and other	Intangible assets	Total
Cost						
Balance at 1 January 2015	134 220	61 287	3 305	13 290	258	**212 360**
incl. financial lease	-	-	*2 791*	-	-	***2 791***
Additions for the year	-	216 098	951	984	-	**218 033**
Disposals for the year	-	(833)	-	(502)	-	**(1 335)**
Balance at 31 December 2015	**134 220**	**276 552**	**4 256**	**13 772**	**258**	**429 058**
Accumulated depreciation						
Balance at 1 January 2015	18 651	32 086	2 108	7 067	65	**59 977**
incl. financial lease	-	-	*1 970*	-	-	***1 970***
Depreciation charge (Note 24)	2 688	16 230	1 106	1 514	25	**21 563**
incl. financial lease	-	-	*821*	-	-	***821***
Disposals for the year	-	(833)	-	(344)	-	**(1 177)**
Balance at 31 December 2015	**21 339**	**47 483**	**3 214**	**8 237**	**90**	**80 363**
Net book value at 31 December 2015	**112 881**	**229 069**	**1 042**	**5 535**	**168**	**348 695**

In 2015 upon termination of the contract of financial lease, motor vehicle is transferred to structure of capital assets.

(In thousands of Russian Rubles)

12. Other assets

	31 December	
	2016	**2015**
Financial assets:	***19 996***	***26 976***
Derivative financial instruments	14 117	15 499
Claims of fees on guarantees issued	4 763	2 986
Settlements on brokerage	4	6 149
Other	1 322	3 037
Provision for impairment of other financial assets	(210)	(695)
Non-financial assets:	***18 141***	***134 128***
Receivables and advance payments	16 890	120 682
Inventories	6 483	14 182
Prepaid taxes, other than income	694	657
Provision for impairment	(5 926)	(1 393)
Total other assets	**38 137**	**161 104**

Movements in the provision for impairment of other assets are presented below :

	2016	**2015**
Balance as at January 1	**(2 088)**	**(62 096)**
Provision/(recovery of provision)	(4 161)	59 339
Other assets written off against impairment provision	113	669
Balance as at December 31	**(6 136)**	**(2 088)**

13. Due to banks

	31 December	
	2016	**2015**
CBR deposits	-	1 003 493
Other loans and deposits due to other banks	80 066	135 000
Correspondent accounts	49	-
Due from other banks	2 308	107
Total due to banks	**82 423**	**1 138 600**

The Bank had no cases of nonperformance of obligations of payment of the main amount of debt and interest or violation of other conditions concerning the raised funds of other banks during 2016 and 2015.

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14. Customer accounts

	31 December	
	2016	**2015**
State and municipal entities:	**3 902 404**	**592 076**
- Current accounts	3 762 309	341 554
- Term deposits	140 095	250 522
Other legal entities:	**11 229 527**	**16 115 097**
- Current accounts	9 259 483	15 553 960
- Term deposits	1 970 044	561 137
Individuals:	**2 680 072**	**733 926**
- Current accounts	2 264 737	66 468
- Term deposits	415 335	667 458
Total customer accounts	**17 812 003**	**17 441 099**

Disposition of funds of customers on branches of economy is presented in the table below :

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
Finance and investement	7 401 056	41.6%	11 905 574	68.3%
State and municipal entities	3 902 404	21.9%	592 076	3.4%
Individuals	2 680 072	15.0%	733 926	4.2%
Industry	1 348 288	7.6%	51 174	0.3%
Construction	1 034 018	5.8%	1 840 431	10.6%
Activities in radio and television	727 176	4.1%	830 913	4.8%
R&D	356 688	2.0%	265 072	1.4%
Trade and services	185 855	1.0%	740 802	4.2%
Motor vehicles	97 225	0.5%	10 789	0.1%
Insurance	49 729	0.3%	18 448	0.1%
Transactions with real estate	28 229	0.2%	451 251	2.6%
Other	1 263	-	643	-
Total customer accounts	**17 812 003**	**100.0%**	**17 441 099**	**100.0%**

As at December 31, 2016 ten biggest customers (groups of related customers) account for RUR 14 439 203 thousand or 81.1% of the total amount of customer accounts (2015: RUR 15 204 906 thousand or 87.2%).

The Bank had no cases of nonperformance of obligations of payment of the main amount of debt and interest or violation of other conditions concerning the raised funds of other banks during 2015 and 2016.

(In thousands of Russian Rubles)

15. Debt securities issued

	31 December	
	2016	**2015**
Bonds	5 486 981	7 130 179
Notes	247 061	1 079 690
Total debt securities in issue	**5 734 042**	**8 209 869**

The following issues of bonds of the Bank are repaid:

Issue	State registration number and date of registration	Volume, bln. rub	Maturity date
МИА-1	40103344B, 04.11.2002	2,2	20.09.2012
МИА-2	40203344B, 14.06.2005	1,0	09.08.2008
МИА-3	40303344B, 18.01.2006	1,5	23.02.2012
МИА-6	40603344B 25.04.2008	2,0	01.06.2009 *
МИА-5	40503344B 25.04.2008	2,0	17.07.2014
МИА-4	40403344B 27.10.2007	2,0	01.10.2015
МИА-БО-01	4B020103344B 28.12.2011	1,5	06.11.2016

* cancelled

For December 31, 2016 2 issues of shares of the Bank are in circulation: issue of БО-02 and БО-03:

1)

Type, series (type), form and other identification signs of securities	Inconvertible interest-bearing documentary exchange coupon bonds with mandatory deposit of БО-02 series with a possibility of early repayment upon the demand of their owners placed by an open subscription
State registration number of issue of securities and date of state registration (identification number of issue and date of assignment in case issue of securities was not subject to the state registration)	4B020203344B 28.12.2011
Number of securities issued	1 500 000 items
The volume of issue of securities at par value or instruction on the fact that according to the legislation of the Russian Federation presence of par value at this type of securities is not provided	1 500 000 000 rub.

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15. Debt securities issued (continued)

Condition of securities of issue (placement was not started; is taking place; placement is complete; are in circulation)	Date of placement – 20.03.2015 Bonds are in circulation
Date of state registration of the report on results of issue of securities (date of submission of the notice of results of issue of securities	In case of issue of exchange bonds submission to registering body of the report (notice) of release results (additional release) of securities is not carried out
Number of the interest-bearing (coupon) periods for which payment of the income (coupons, interest) on securities of issue (for bonds is carried out	20 coupon periods
Term (date) of repayment of securities of issue	07.03.2025.

2)

Type, series (type), form and other identification signs of securities	inconvertible interest-bearing documentary exchange coupon bonds with mandatory deposit of the BO-03 series
State registration number of issue of securities and date of state registration (identification number of issue and date of assignment in case issue of securities was not subject to the state registration)	4B020303344B 28.12.2011
Number of securities issued	4 000 000 items (incl. 2 000 000 items – main issue 2 000 000 items – additional issue №1)
The volume of issue of securities at par value or instruction on the fact that according to the legislation of the Russian Federation presence of par value at this type of securities is not provided	4 000 000 000 rub. (incl. 2 000 000 000 rub. – main issue 2 000 000 000 rub. – additional issue №1)
Condition of securities of issue (placement was not started; is taking place; placement is complete; are in circulation)	Date of placement: 06.06.2014 г. – main issue 16.07.2015 – additional issue Are in circulation
Date of state registration of the report on results of issue of securities (date of submission of the notice of results of issue of securities	In case of issue of exchange bonds submission to registering body of the report (notice) of release results (additional release) of securities is not carried out
Number of the interest-bearing (coupon) periods for which payment of the income (coupons, interest) on securities of issue (for bonds is carried out	6 coupon periods
Term (date) of repayment of securities of issue	06.06.2017 г.

The Bank did not allow cases of non-performance of liabilities of payment of the main amount of debt and interest or violation of other conditions concerning liabilities under issued debt securities during 2016 and 2015.

(In thousands of Russian Rubles)

16. Other liabilities

	31 December 2016	31 December 2015
Financial liabilities:	*18 225*	*126 224*
Financial guarantees	15 438	26 972
Liabilities on derivative financial instrument	198	96 887
Other financial liabilities	2 589	2 365
Non-financial liabilities:	*29 881*	*24 249*
Accrued liabilities with staff on payroll	19 124	12 270
Taxes payable, other than income tax	7 888	5 309
Payables	2 869	6 670
Total other liabilities	**48 106**	**150 473**

The Bank had no cases of nonperformance of financial obligations or violation of other conditions concerning the financial obligations during 2015 and 2014.

17. Share capital and paid-in capital

The authorized, issued and paid up capital of the Bank comprises :

	31 December 2016			31 December 2015		
	Number of shares (pcs)	**Par value RUR000's**	**Inflation adjusted value RUR000's**	**Number of shares (pcs)**	**Par value RUR000's**	**Inflation adjusted value RUR000's**
Ordinary shares	113 381	5 442 288	5 537 679	113 381	5 442 288	5 537 679
Paid-in capital	-	-	601 615	-	-	601 615
Total share capital and paid-in capital	**113 381**	**5 442 288**	**6 139 294**	**113 381**	**5 442 288**	**6 139 294**

All ordinary shares of the Bank have par value of RUR 48 thousand per share. Each share carries one voting authority. Preference stock are not envisaged by the Charter of the Bank.

18. Dividends

In 2016 dividends on ordinary shares of 28 799 thousand rubles are stated and completely paid that made 254 rub per 1 ordinary share.

In 2015 no dividends were stated and paid.

(In thousands of Russian Rubles)

19. Interest income and expense

	For the year ended 31 December	
	2016	**2015**
Interest income		
Loans to customers	1 843 261	1 693 499
Financial assets available for sale	761 853	455 930
Due from banks	109 404	580 900
Total interest income	**2 714 518**	**2 730 329**
Interest expense		
Debt securities issued	(932 717)	(961 154)
Current accounts	(553 248)	(305 445)
Due from banks	(279 081)	(353 951)
Deposits of legal entities	(62 787)	(90 001)
Deposits of individuals	(59 889)	(34 426)
Financial lease	-	(141)
Total interest expense	**(1 887 722)**	**(1 745 118)**
Net interest income	**826 796**	**985 211**

Interest expense on debt securities issued are presented in the cash flow statement in financial activity.

20. Fee and commission income and expense

	For the year ended 31 December	
	2016	**2015**
Fee and commission income		
Commission on settlement and cash banking service	196 385	135 141
Commission on guarantees issued	47 841	45 763
Commission on opening and maintenance of accounts	2 006	1 637
Other	15 650	13 189
Total fee and commission income	**261 882**	**195 730**
Fee and commission expense		
Commission on transfer with foreign currency	(41 915)	(8 879)
Commission on transfer services	(6 928)	(4 062)
Commission on settlement and cash banking service	(5 248)	(6 539)
Commission on services for brokerage agreements	(326)	(560)
Other	(2 614)	(1 289)
Total fee and commission expense	**(57 031)**	**(21 329)**
Net	**204 851**	**174 401**

(In thousands of Russian Rubles)

21. Gain less losses on transactions with financial assets and liabilities

	For the year ended 31 December	
	2016	**2015**
Gain less losses on transactions with financial assets at fair value through profit and loss	114 110	18 535
Gain less losses on transactions with financial assets available for sale	35 906	58 982
Gain less losses on transactions with issued debentures	10 357	-
Gain less losses on transactions with financial assets and liabilities	**160 373**	**77 517**

22. Allowance for impairment

	For the year ended 31 December	
	2016	**2015**
Loans to customers (Note 7)	(461 474)	(967 881)
Financial assets available for sale (Note 8)	16 105	(16 105)
Other assets (Note 12)	(4 161)	59 339
Total allowance for impairment of assets	**(449 530)**	**(924 647)**

23. Other operating income

	For the year ended 31 December	
	2016	**2015**
Income from revaluation of the assets intended for sale within the previous markdown	30 646	-
Income from disposal of property	509	790
Income from lock box lease	429	403
Fines, penalties and forfeitures received	59	6
Other	13 569	123
Total other operating income	**45 212**	**1 322**

(In thousands of Russian Rubles)

24. Operating expenses

	For the year ended 31 December	
	2016	**2015**
Payroll expenses	(438 235)	(398 192)
Connection	(40 005)	(40 638)
Other taxes excluding the income tax	(25 110)	(22 704)
Depreciation of property and equipment and amortization of intangible assets (Note 11)	(82 529)	(21 563)
Lease payments	(13 369)	(14 355)
Repairs and maintenance	(8 944)	(13 889)
Security	(8 841)	(9 258)
Write-off of inventory stock cost	(16 704)	(7 725)
Insurance	(4 160)	(6 153)
Advertising and marketing	(2 107)	(5 809)
Depreciation of property in other assets	(3 457)	(4 550)
Expenses on cultural and educational events	(1 167)	(2 298)
Loss on disposal of property	-	(125)
Other	(75 745)	(85 088)
Total operating expenses	**(720 373)**	**(632 347)**

Payroll expenses are given below :

	For the year ended 31 December	
	2016	**2015**
Salary and bonus expenses	(352 841)	(317 801)
Payments to state non-budgetary funds	(85 097)	(77 939)
Training costs	(297)	(49)
Other payroll expenses	-	(2 403)
Total	**(438 235)**	**(398 192)**

Average monthly salary of one employee in 2016 was RUR 100 thousand. (2015: RUR 96 thousand).

25. Income Tax

For the years 2016 and 2015, income tax expense recognized in statement of comprehensive income comprised :

	For the year ended 31 December	
	2016	**2015**
Current income tax expenses	345 291	245
Changes in deferred tax due to the origination and reversal of temporary differences	(135 715)	51 481
Income tax expense/ refund for the year	**209 576**	**51 726**

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25. Income Tax (continued)

In 2016 the current tax rate applicable to the major part of the Bank's profit was 20% (2015: 20%).

The table below shows reconciliation between the official income tax expense and the actual income tax expense.

	For the year ended 31 December	
	2016	**2015**
IFRS profit (loss) before tax	821 808	78 869
Theoretical income tax expense at the statutory rate 20% (2015:20%)	164 362	15 774
Other non-temporary differences	45 214	35 952
Income tax expense/ refund for the year	**209 576**	**51 726**

Differences between IFRS and local tax laws and regulations give rise to certain temporary differences between the carrying values of assets and liabilities for financial reporting purposes and those for income tax purposes. The tax effect of movements in these temporary differences is recorded at the rate of 20% (2015: 20%).

Below is the analysis of the Bank's deferred tax position .

	31 December 2016	**Movements**	**31 December 2015**
Tax effect of deductible temporary differences:			
- Accrued interest income and expense	34 215	8 339	25 876
- Accrued non-interest income and expense	7 987	4 937	3 050
- Fair value measurement of financial assets	201	(10 762)	10 963
- Amortization of real estate	9 308	(5 476)	14 784
- Tax losses	-	(44 965)	44 965
- Provisions	30 789	24 270	6 519
- Other	47 218	22 446	24 772
Total deferred tax asset	**129 718**	**(1 211)**	**130 929**
Tax effect of taxable temporary differences:			
- Accrued non-interest income and expense	2 823	(159 662)	162 485
- Depreciation of property and equipment	8 988	3 126	5 862
- Other	33 472	33 472	-
Total deferred tax liability	-	(3 100)	3 100
Net deferred tax liability	**45 283**	**(126 164)**	**171 447**
Tax effect of deductible temporary differences:	**84 435**	**124 953**	**(40 518)**
including:			
- not recognized in equity due to financial assets available for sale at fair value	201	(10 762)	10 963
- not recognized in profit or loss	84 234	135 715	(51 481)

26. Earnings per share

The basic earning per share is calculated by division of net loss or profit for ordinary shareholders and weighted average number of ordinary shares outstanding within a year, minus average number of ordinary shares redeemed by the Bank from shareholders and held as own shares.

(In thousands of Russian Rubles)

The Bank has no dilutive potential ordinary shares, therefore, earning per dilutive potential share is equal to the basic earning per share.

	For the year ended 31 December	
	2016	**2015**
Net profit (loss) for the period (RUR000's) per Bank shareholders	612 232	27 143
Weighted average number of shares outstanding during the period (pcs)	113 381	113 381
Earning per dilutive potential share (RUR)	**5 399,78**	**239,40**

(In thousands of Russian Rubles)

27. Segmentation analysis

Transactions between segments were carried out within usual activity of the Bank.

Information on reporting segments as at December 31, 2016 and for the year ended on December 31, 2016 is given below .

	Loans to legal entities	Mortgage loans to individuals	Securities trading	Undistrib u-table assets/ liabilities	Total
Assets					
Cash and cash equivalents	-	-	7 701 022	401 004	**8 102 026**
Obligatory reserves with the CBR	73 354	-	-	-	**73 354**
Due from banks	-	-	1 682 400	-	**1 682 400**
Loans to customers	4 935 399	5 891 484	-	-	**10 826 883**
Financial assets available for sale	-	-	10 421 267	-	**10 421 267**
Current income tax assets	-	-	-	87 638	**87 638**
Long-term financial assets available for sale	133 702	16 811	-	-	**150 513**
Investment property	523	-	-	-	**523**
Property, equipment and intangible assets	-	-	-	84 435	**84 435**
Other assets	-	-	-	379 838	**379 838**
Total assets	8 037	4 814	25 286	-	**38 137**
Liabilities	**5 151 015**	**5 913 109**	**19 829 975**	**952 915**	**31 847 014**
Due to banks					
Customer accounts	-	-	82 423	-	**82 423**
Debt securities in issue	3 028 041	4 453 001	10 330 961	-	**17 812 003**
Deferred tax liability	974 787	1 433 511	3 325 744	-	**5 734 042**
Other liabilities	8 178	12 027	27 901	-	**48 106**
Total liabilities	**4 011 006**	**5 898 539**	**13 767 029**	-	**23 676 574**
Balance sheet item	**1 140 009**	**14 570**	**6 062 946**	**952 915**	**8 170 440**
Statement of comprehensive income					
Interest income	997 282	845 979	871 257	-	**2 714 518**
Interest expenses	(434 176)	(490 808)	(962 738)	-	**(1 887 722)**
Fee and commission income	70 270	189 276	2 336	-	**261 882**
Fee and commission expenses	(13 117)	(14 828)	(29 086)	-	**(57 031)**
Provision for impairment movement	(478 611)	12 976	16 105	-	**(449 530)**
Operating income (incl. foreign currency revaluation)	220 815	249 616	489 633	-	**960 064**
Payroll expenses	(108 682)	(112 062)	(217 491)	-	**(438 235)**
Lease expenses, security	(5 108)	(5 775)	(11 327)	-	**(22 210)**
Taxes and dues	(5 775)	(6 529)	(12 806)	-	**(25 110)**
Administrative expenses, advertisement	(53 213)	(60 154)	(117 994)	-	**(231 361)**
Amortization of real estate in other assets	(3 457)	-	-	-	**(3 457)**
Income tax	-	-	-	(209 576)	**(209 576)**
Profit or loss of segment for 2016	**186 228**	**607 691**	**27 889**	**(209 576)**	**612 232**

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27. Segmentation analysis (continued)

Information on reporting segments as at December 31, 2015 and for the year ended on December 31, 2015 is given below .

	Loans to legal entities	Mortgage loans to individuals	Securities trading	Undistribu-table assets/ liabilities	Total
Assets					
Cash and cash equivalents	-	-	-	4 292 790	**4 292 790**
Obligatory reserves with the CBR	44 685	-	-	-	**44 685**
Due from banks	-	-	6 940 308	-	**6 940 308**
Loans to customers AM	4 220 355	7 449 224	-	-	**11 669 579**
Financial assets available for sale	-	-	10 830 764	-	**10 830 764**
Current income tax assets	-	-	-	111 760	**111 760**
Long-term financial assets available for sale	104 414	19 895	-	-	**124 309**
Investment property	523	-	-	-	**523**
Property, equipment and intangible assets	-	-	-	348 695	**348 695**
Other assets	27 231	35 655	98 218	-	**161 104**
Total assets	**4 397 208**	**7 504 774**	**17 869 290**	**4 753 245**	**34 524 517**
Liabilities					
Due to banks	-	-	1 138 600	-	**1 138 600**
Customer accounts	2 964 987	4 360 275	10 115 837	-	**17 441 099**
Debt securities in issue	1 395 678	2 052 467	4 761 724	-	**8 209 869**
Deferred tax liability	-	-	-	40 518	**40 518**
Other liabilities	9 110	13 397	127 966	-	**150 473**
Total liabilities	**4 369 775**	**6 426 139**	**16 144 127**	**40 518**	**26 980 559**
Balance sheet item	**27 433**	**1 078 635**	**1 725 163**	**4 712 727**	**7 543 958**
Statement of comprehensive income					
Interest income	660 018	1 033 481	1 036 830	-	**2 730 329**
Interest expenses	(383 926)	(593 340)	(767 852)	-	**(1 745 118)**
Fee and commission income	77 786	58 509	59 435	-	**195 730**
Fee and commission expenses	(4 692)	(7 252)	(9 385)	-	**(21 329)**
Provision for impairment movement	(881 266)	(27 276)	(16 105)	-	**(924 647)**
Operating income (incl. foreign currency revaluation)	104 775	161 925	209 551	-	**476 251**
Payroll expenses	(95 683)	(131 747)	(170 762)	-	**(398 192)**
Lease expenses, security	(5 195)	(8 028)	(10 390)	-	**(23 613)**
Taxes and dues	(4 995)	(7 719)	(9 990)	-	**(22 704)**
Administrative expenses, advertisement	(40 323)	(62 318)	(80 647)	-	**(183 288)**
Amortization of real estate in other assets	(4 550)	-	-	-	**(4 550)**
Income tax	-	-	-	(51 726)	**(51 726)**
Profit or loss of segment for 2015	**(578 051)**	**416 235**	**240 685**	**(51 726)**	**27 143**

(In thousands of Russian Rubles)

28. Geographical analysis

Geographical analysis of the Bank's assets and liabilities is presented below .

	31 December 2016			
	Russia	**OECD countries***	**Other countries**	**Total**
Assets				
Cash and cash equivalents	8 079 434	22 592	-	**8 102 026**
Obligatory reserves with the CBR	73 354	-	-	**73 354**
Due from banks	1 682 400	-	-	**1 682 400**
Loans to customers	10 826 883	-	-	**10 826 883**
Financial assets available for sale	6 735 813	3 323 779	361 675	**10 421 267**
Current income tax assets	87 638	-	-	**87 638**
Long-term financial assets available for sale	84 435	-	-	**84 435**
Investment property	150 513	-	-	**150 513**
Property, equipment and intangible assets	523	-	-	**523**
Other assets	379 838	-	-	**379 838**
Total assets	37 400	737	-	**38 137**
	28 138 231	**3 347 108**	**361 675**	**31 847 014**
Liabilities				
Due to banks				
Customer accounts	82 423	-	-	**82 423**
Debt securities in issue	17 811 940	-	63	**17 812 003**
Deferred tax liability	5 734 042	-	-	**5 734 042**
Other liabilities	48 063	43	-	**48 106**
Total liabilities	**23 676 468**	**43**	**63**	**23 676 574**
Net position	**4 461 763**	**3 347 065**	**361 612**	**8 170 440**
Credit related commitments	1 604 023	-	-	**1 604 023**

* OECD – Organization for Economic Co-operation and Development .

(In thousands of Russian Rubles)

28. Geographical analysis (continued)

31 December 2015	Russia	OECD countries*	Other countries	Total
Assets				
Cash and cash equivalents	3 683 883	608 907	-	**4 292 790**
Obligatory reserves with the CBR	44 685	-	-	**44 685**
Due from banks	6 940 308	-	-	**6 940 308**
Loans to customers	11 669 579	-	-	**11 669 579**
Financial assets available for sale	5 662 438	3 325 882	1 842 444	**10 830 764**
Current income tax assets	111 760	-	-	**111 760**
Long-term financial assets available for sale	124 309	-	-	**124 309**
Investment property	523	-	-	**523**
Property, equipment and intangible assets	348 695	-	-	**348 695**
Other assets	160 373	731	-	**161 104**
Total assets	**28 746 553**	**3 935 520**	**1 842 444**	**34 524 517**
Liabilities				
Due to banks	1 138 600	-	-	**1 138 600**
Customer accounts	16 997 679	2	443 418	**17 441 099**
Debt securities in issue	8 209 869	-	-	**8 209 869**
Deferred tax liability	40 518	-	-	**40 518**
Other liabilities	147 029	3 444	-	**150 473**
Total liabilities	**26 533 695**	**3 446**	**443 418**	**26 980 559**
Net position	**2 212 858**	**3 932 074**	**1 399 026**	**7 543 958**
Credit related commitments	1 977 209	-	-	**1 977 209**

* OECD – Organization for Economic Co-operation and Development .

29. Financial risk management

Bank operation are under different financial risks. Risk management is fundamental for banking business and is an essential element of the Bank's operations. The objective of financial risk management is to achieve an acceptable risk/profitability ratio and minimize possible negative effects of the risks on the Bank's financial performance. The Bank's financial risk management is aimed at identifying and analyzing credit and market risks and liquidity risk, establishing appropriate limits and control procedures and monitoring risks levels using reliable and actual information systems.

The Bank has four-level control system of risks management.

• first (top) level of management: Shareholders' general meeting of the Bank, Board of directors of the Bank,

• second level of management:– General Director, Chairman of board of directors of the Bank, Bank Management, Credit and financial committee,

• third level of management: Service of financial analysis and risk management of the Bank, Internal Control Service of the Bank, Department of financial monitoring, Chief accountant of the Bank, the deputies.

• fourth level of management: structural subdivision of the Bank.

Financial risk management includes such stages as specification (identification), analysis (evaluation), choice of a method of risk management and application of the method, risk monitoring, risk minimization, risk control. The techniques of evaluation of specific types of risks approved by the Bank Management contain a list of key indicators on risk factors, calculation methods, and the order of collection of information on key indicators. The risk evaluation methods used by the Bank can change depending on the extent of development of the risk control system in the Bank and by changing of the policy of management of different types of risks. The detailed order of evaluation of concrete types of risk is described in management procedure of different types of risk. Such methods of risk treatment as risk restriction and retention are the most acceptable at this stage of development of the Bank. Risk retention is made within the acceptable levels approved by the Board of directors for each type of the risk. In case the expected risk dimension is above the acceptable level, the Bank makes a decision of necessity of risk aversion by refusal of any operation (transaction) or activity. Risk restriction is carried out through establishment of limits on carrying out operations and their volume which observance is obligatory for subdivisions and officials of the Bank, authorized to perform these operations. The list of possible limits is stated in the internal normative documents approved by competent authorities of the Bank. Specific limit values are approved by protocols of meetings of Credit and financial committee and in specific cases by the Bank Management and the Board of Directors.

The Service of financial analysis and risk management is a subdivision of the Bank independent on the subdivisions of the Bank, which are carrying out operations bearing risks of losses which reveals and estimates financial risks. The report on effective risk management is provided to the Bank Management and the Board of Directors.

The objective of the Service of internal control is independent analysis of adequacy of the established procedures of risk management and observance of these procedures; results of the analysis are presented to the Bank Management and the Board of Directors. Risk concentration arises due to financial instruments with similar characteristics and experiencing similar impact of changes of economic, political and other conditions

29. Financial risk management (continued)

For decrease in risk concentration the Bank adheres to policy of diversification, for this purpose regulations and procedures of the Bank include special provisions directed at maintenance of diversified portfolio.

Financial risk management and its evaluation are carried out by the Bank continually.

29.1 Credit risk

The Bank is at credit risk which represents the risk when a counterparty fails to discharge its obligations on a financial instrument to the full extent and in set terms will lead to Bank's financial losses. The Bank controls credit risk both at the level of borrowers / groups of related borrowers, and at the level of credit portfolio of the Bank in general. Credit risk control at the level of borrower is carried out by establishment of a risk limit on the borrower, including banks. The actual observance of limits concerning the level of the assumed risk is controlled on a daily basis.

Management and control of credit risk at the level of credit portfolio of the Bank is carried out by studying and monitoring of values and dynamics of the key indicators of quality of the credit portfolio determined in internal document of the Bank on credit risk management. The maximum allowable risk on one borrower is also controlled.

Credit risk control is also carried out by regular analysis of the ability of the existing and potential borrowers to repay interest payments and the main sum of the debt, and through change of credit limits if necessary. The credit policy of the Bank states main stages of the credit process, differentiates decision making authority on risk, defines limits of concentration of credit portfolio and system of observance of these limits.

In Bank has a set order of the participation of governing bodies and structural divisions in management of credit risk:

Authority of Board of directors of the Bank.

- assessment of effective management of risks, including credit risk;
- determination of maximum acceptable cumulative level of risks and acceptable level of risks,
- control of activity of executive bodies of the Bank, including management of bank risks;
- approval of major transactions, transactions with the parties related to the Bank and interested party transactions (under the regulations established by the legislation, the Charter of the Bank, normative documents and internal documents of order of approval of such transactions),
- other competence established by the Charter of the Bank and the Provision on Board of directors.

Authority of Director General, Chairman of the Management Board:

- implementation of tariffs, approval of standard forms of the contracts, duty regulations and other documents used in the Bank according to the established competence including rules AML/CFT,
- иная компетенция, установленная Уставом Банка.
- implementation on a constant basis of control of execution of the established rules and procedures in the field of credit risk management,
- other competence established by the Charter of the Bank

29. Financial risk management (continued)

Authority of Management Board:

- approval of the internal documents regulating valuation technique of credit risk
- definition of the order of classification (reclassification) of outstanding loans in case of granting preferential, renewed (including prolonged), not enough secured and unsecured credits (loans), expired loans, and also classification (reclassification) of other financial assets and off-balance instruments for creation of loan loss provisions,
- ensuring fast informing of Board of directors on all significant bank risks,
- regular carrying out of self-assessment of quality of credit risk management;
- other authorities provided by the Charter and the Provision on Management Board of the Bank.

Authority of Credit and financial Committee:

- statement of parameters of credit products;
- statement of the limits that are under the competence of Credit and financial committee;
- development of decisions on expediency and conditions of granting credits and conclusion of other transactions taking into account credit and other risks arising at their realization;
- definition of concrete forms of effective management of credit and other risks;
- making decisions on classification (reclassification) of the loan and loan equivalent debt;
- other competence established by the Provision on Credit and financial committee.

Authority of Service of the financial analysis and risk management (SFAUR):

- data collection and processing concerning indicators of credit risk and data input in IT system;
- assessment of credit risk;
- regular preparation and presentation to governing bodies of the Bank of the administrative reports established by the present Provision;
- development and implementation of measures, procedures, mechanisms and technologies for restriction and (or) decrease in credit risk.

Authority of heads of structural divisions of Bank:

- control of observance of the set limits of the performed by the bank operations and other transactions;
- control of financial state and quality of debt service of the borrowers for the purpose of classification/reclassification of loans;
- informing SFAUR on change of condition of the indicators used for monitoring of credit risk.

The Bank uses various methods of decrease of credit risk of credit operations. A deep analysis of a possibility of the borrower to handle the estimated level of debt is carried out at the stage of consideration of the transaction.

The performance of liabilities is secured with receiving a security deposit. The following methods are applied by the Bank for decrease and restriction of credit risk :

29. Financial risk management (continued)

Limitation

By establishment of limits the Bank manages to avoid critical losses owing to rash concentration of any kind of risk, and also to diversify loan portfolio and to provide stable income.

Limits can be set by types of credit products, types of investments, categories of borrowers or groups of the interconnected borrowers, by loans in certain areas, by the most risky directions of investments and liabilities, such as providing long-term loans, crediting in foreign currency, etc. Limits are defined as maximum allowed amount of the loan (or the rest of loan debt) and are expressed, as in absolute limiting values (amount in monetary terms), and in relative indicators (coefficients, indexes, standards).

Types of the limits used by the Bank are defined by Limit policies. When establishing the limits, special attention is focused on observance by the Bank of the requirements determined by the Instruction of the Bank of Russia № 139-И.

Provisioning

This method is directed at protection of investors, creditors and shareholders, at the same time increasing quality of the loan portfolio and reliability of the Bank.

Provisioning is carried out for the purpose of repayment of possible losses from unpaid debts because of insolvency of borrowers (contractors) of the bank.

Securing obligations

The bank reduces credit risks by acceptance as security of movable and real property, property rights / rights of demand, guarantees and pledges. Types of the accepted securities are defined by the Credit policies.

Concerning off-balance financial instruments the Bank applies the same credit policy, as to balance financial instruments, based on procedures of approval of transactions, use of limits and pledges limiting the risk and monitoring.

29. Financial risk management (continued)

Internal and external ratings, used by the Bank for credit risk management and for meeting the requirement of bank supervision, are mostly concentrated on the expected losses at the time of loan granting or investments in securities. At the same time, impairment reserve is recognized in the financial statements only for losses which were sustained as of the reporting date on the basis of the objective signs confirming that during the period after initial recognition there was a depreciation. Due to the distinctions in the applied methodologies the sum of the sustained credit losses calculated for the financial statements is usually lower than the sum determined on the basis of the model of expected losses.

The system of internal ratings assists the management to define the existence of objective signs of depreciation, based on the following criteria established by the Bank:

- refusal or delays in payment of interest or main debt amount ;
- considerable financial difficulties of the borrower or issuer;
- violation of conditions of loan granting ;
- considerable deterioration of the competitive position of the borrower or issuer ;
- considerable decrease in fair value of security.

The procedure of evaluation of depreciation applied by the Bank is described detailed in Note 4.

(In thousands of Russian Rubles)

29. Financial risk management (continued)

Maximum credit risk without security

The maximum credit risk (without fair value of security) is equal to the sum of net balance value of financial assets and nominal value of credit liabilities reflected in the table given below.

	Estimated on individual basis						
December 31, 2016	**Current**	**Impairment**	**Not estimated on individual basis**	**Gross amount**	**Individual reserve**	**Group reserve**	**Net amount**
Credit risk on assets:							
Correspondent account and overnight sweep accounts in banks	143 230	-	-	**143 230**	-	-	**143 230**
Other deposits in financial institutions	588 845	-	-	**588 845**	-	-	**588 845**
Due from other banks (except for CBR)	1 682 400	-	-	**1 682 400**	-	-	**1 682 400**
Loans to legal entities	4 236 318	2 313 504	-	**6 549 822**	(1 529 695)	(84 728)	**4 935 399**
Loans to individuals	193 173	237 217	5 682 684	**6 113 074**	(145 818)	(75 772)	**5 891 484**
Debt securities available for sale	8 326 051	-	-	**8 326 051**	-	-	**8 326 051**
Other financial assets	19 996	210	-	**20 206**	(210)	-	**19 996**
Credit risk on credit related commitments:							
Financial guarantee	1 593 751	-	-	**1 593 751**	-	-	**1 593 751**
Liability on loan granting	10 272	-	-	**10 272**	-	-	**10 272**
Total	**16 794 036**	**2 550 931**	**5 682 684**	**25 027 651**	**(1 675 723)**	**(160 500)**	**23 191 428**

(In thousands of Russian Rubles)

29. Financial risk management (continued)

December 31, 2015	Estimated on individual basis		Not estimated on individual basis	Gross amount	Individual reserve	Group reserve	Net amount
	Current	Impairment					
Credit risk on assets:							
Correspondent account and overnight sweep accounts in banks	1 375 916	-	-	**1 375 916**	-	-	**1 375 916**
Other deposits in financial institutions	2 310 492	-	-	**2 310 492**	-	-	**2 310 492**
Due from other banks (except for CBR)	3 840 308	-	-	**3 840 308**	-	-	**3 840 308**
Loans to legal entities	3 874 401	1 482 723	-	**5 357 124**	(1 059 280)	(77 489)	**4 220 355**
Loans to individuals	101 302	187 911	7 397 781	**7 686 994**	(127 878)	(109 892)	**7 449 224**
Debt securities available for sale	9 236 329	1 610 540	-	**10 846 869**	(16 105)	-	**10 830 764**
Other financial assets	26 976	695	-	**27 671**	(695)	-	**26 976**
Credit risk on credit related commitments:							
Financial guarantee	1 977 209	-	-	**1 977 209**	-	-	**1 977 209**
Total	**22 742 933**	**3 281 869**	**7 397 781**	**33 422 583**	**(1 203 958)**	**(187 381)**	**32 031 244**

The analysis of loans and advance payments to customers on credit quality, information on fair value of security of the credits are presented in Note 7.

Recoverables
During 2016 the Bank received assets as a result of recovery proceedings against mortgaged property for the sum of RUR 5 204 thousand (2015: RUR 5 763 thousand). The assets received as a result of recovery proceedings against mortgaged property are realized by the Bank in the short term. Not realized assets received as a result of recovery proceedings against mortgaged property are considered as at the reporting date as part of other assets and long-term assets available for sale.

Realized loans and advance payments to customers
In 2016 the Bank has realized the loans of customers for the amount of 119 525 thousand rubles (2015: 7 141 thousand rubles). Under the terms of realization the Bank has completely transferred the rights and liabilities under the realized credits.

(In thousands of Russian Rubles)

29. Financial risk management (continued)

Due from other banks and debt investments

The analysis of quality of due from other banks and debt investments based on the current credit ratings held by international and recognized rating agencies is given below. External credit ratings on the classification used by the International rating agency Moody's are given in tables below. The highest possible rating is Aaa. Investment level of financial assets corresponds to ratings from Aaa to Baa3. Financial assets with a rating below Baa3 belong to speculative grade.

31 December 2016	A3 to Aaa	*Baa3 to Baa1*	Ba3 to Ba1	B3 to B1	under B3	No external rating	Total
Correspondent account	-	15 264	8 991	43 075	-	75 900	**143 230**
Other deposits in financial institutions	-	588 639	-	-	-	206	**588 845**
Discounted bills	-	-	180 125	-	-	-	**180 125**
Current loans and other due from other banks	-	-	1 000 277	500 196	-	1 802	**1 502 275**
Debt securities available for sale	-	459 446	9 594 662	329 642	-	37 517	**10 421 267**
Total	-	**1 063 349**	**10 784 055**	**872 913**	-	**115 425**	**12 835 742**

31 December 2015	A3 to Aaa	*Baa3 to Baa1*	Ba3 to Ba1	B3 to B1	under B3	No external rating	Total
Correspondent account and overnight sweep accounts in banks	-	528 052	107 298	45 480	-	695 086	**1 375 916**
Other deposits in financial institutions	-	2 309 102	-	-	-	1 390	**2 310 492**
Discounted bills	-	-	1 315 542	873 492	-	-	**2 189 034**
Current loans and other due from other banks	-	-	850 254	800 291	-	729	**1 651 274**
Debt securities available for sale	-	-	5 347 369	5 407 600	-	75 795	**10 830 764**
Total	-	**2 837 154**	**7 620 463**	**7 126 863**	-	**773 000**	**18 357 480**

29.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments. Liquidity risk arises when the maturities of assets and liabilities of the Bank do not match (including non-fulfillment of financial liabilities by one or several contractors of the Bank) and/or due to sudden need of immediate and instantaneous performance by the Bank of financial liabilities.

Control of liquidity risk is carried out by the following divisions:

Operating control of the level of instant liquidity is carried out by the Treasury Department. Thus observance of limit of quick liquidity ratio established by the Bank of Russia is also controlled.

Operating control of quick assets ratio is carried out by the Accounts Department, the Treasury Department and SFAUR that are carrying out interaction in the order established by internal documents of the Bank. Thus observance of limits of standards of current and long-term liquidity ratios established by the Bank of Russia is controlled.

(In thousands of Russian Rubles)

29. Financial risk management (continued)

SFAUR is responsible for liquidity risk evaluation and carrying out stress testing.

SVK reveals and analyzes shortcomings of evaluation system, management and control of liquidity condition.

Controlling services also are the Board of Directors of the Bank (exclusive level), Management of the Bank (top level).

For liquidity risk evaluation and analysis, the Bank uses the following methods:

- liquidity risk evaluation by ratio method (studying dynamics of liquidity ratios, calculation of resulting value for group of indicators of liquidity evaluation) and determination of risk level of liquidity loss;
- liquidity risk evaluation by method of analysis of gaps in terms of active and passive transactions;
- limitation of extreme values of ratios of liquidity surplus/deficiency;
- forecast of cash flows for various horizon periods;
- scenario analysis and stress testing.

The Bank of Russia established standards of quick, current and long-term liquidity (H2, H3 and H4) which the Russian banks are to comply with on a daily basis. The information below presents observance by the Bank of the specified standards in 2016 and 2015.

The table given below reflects undiscounted cash flows which are due to pay on financial liabilities of the Bank by the corresponding timeframes on the basis of the remaining period as at the reporting date till the contract maturity date. The table includes both principal payments, and interest payments.

Requirements to liquidity for guarantees are much lower, than the amount of the corresponding liabilities as the Bank usually does not expect that funds on these transactions will be demanded by the third parties.

The bank does not use the analysis given below for management of liquidity

31 December 2016

	On demand and less than 1 month	1 to 6 month	6 months to 1 year	More than 1 year	Total
Due to banks	82 622	-	-	-	**82 622**
Customer accounts	17 138 396	132 673	513 305	69 017	**17 853 391**
Debt securities issued	218	4 439 848	53 270	2 973 661	**7 466 997**
Other financial liabilities	2 987	1 138	8 927	5 173	**18 225**
Guarantees	100 575	602 982	681 788	208 406	**1 593 751**
Liability on loan granting	10 272	-	-	-	**10 272**
Derivative financial instruments	5 075 017	-	-	-	**5 075 017**
Total contractual future payments	**22 410 087**	**5 176 641**	**1 257 290**	**3 256 257**	**32 100 275**

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29. Financial risk management (continued)

31 December 2015	On demand and less than 1 month	1 to 6 month	6 months to 1 year	More than 1 year	Total
Due to banks	135 392	1 018 164	-	-	**1 153 556**
Customer accounts	16 250 182	532 041	702 258	23 674	**17 508 155**
Debt securities issued	111 771	707 784	2 135 322	8 350 410	**11 305 287**
Other financial liabilities	100 127	2 845	19 869	3 383	**126 224**
Guarantees	451 387	630 697	650 188	244 937	**1 977 209**
Derivative financial instruments	20 640 312	-	-	-	**20 640 312**
Total contractual future payments	**37 689 171**	**2 891 531**	**3 507 637**	**8 622 404**	**52 710 743**

Regarding liquidity management the Bank controls expected (or contract) maturity dates taking into account discounting of cash flows. The balance cost of financial instruments on the expected maturity dates is given in the table below.

31 December 2016	On demand and less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Maturity undefined	Total
Assets:						
Cash and cash equivalents	8 102 026	-	-	-	-	**8 102 026**
Obligatory reserves with the CBR	73 354	-	-	-	-	**73 354**
Due from banks	1 502 275	180 125	-	-	-	**1 682 400**
Loans to customers	383 824	1 588 186	3 277 453	5 576 026	1 394	**10 826 883**
Financial assets available for sale	10 421 267	-	-	-	-	**10 421 267**
Current income tax assets	-	-	87 638	-	-	**87 638**
Deferred tax asset	-	-	-	-	84 435	**84 435**
Long-term assets available for sale	-	-	150 513	-	-	**150 513**
Investment property	-	-	-	-	523	**523**
Property, equipment and intangible assets	-	-	-	-	379 838	**379 838**
Other assets	14 121	12 455	5 078	-	6 483	**38 137**
Total assets	**20 496 867**	**1 780 766**	**3 520 682**	**5 576 026**	**472 673**	**31 847 014**
Liabilities						
Due to banks	82 423	-	-	-	-	**82 423**
Customer accounts	17 133 272	128 864	488 438	61 429	-	**17 812 003**
Debt securities issued	218	4 228 601	50 223	1 455 000	-	**5 734 042**
Deferred tax liability	2 987	6 726	8 927	5 173	24 293	**48 106**
Other liabilities	**17 218 900**	**4 364 191**	**547 588**	**1 521 602**	**24 293**	**23 676 574**
Net position	**3 277 967**	**(2 583 425)**	**2 973 094**	**4 054 424**	**448 380**	**8 170 440**
Cumulative liquidity gap	**3 277 967**	**694 542**	**3 667 636**	**7 722 060**	**8 170 440**	**-**

(In thousands of Russian Rubles)

29. Financial risk management (continued)

	31 December 2015					
	On demand and less than 1 month	**1 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Maturity undefined**	**Total**
Assets:						
Cash and cash equivalents	4 292 790	-	-	-	-	**4 292 790**
Obligatory reserves with the CBR	44 685	-	-	-	-	**44 685**
Due from banks	5 048 904	792 305	1 099 099	-	-	**6 940 308**
Loans to customers	362 254	1 496 361	1 329 957	8 219 197	261 810	**11 669 579**
Financial assets available for sale	10 830 764	-	-	-	-	**10 830 764**
Current income tax assets	-	-	111 760	-	-	**111 760**
Long-term assets available for sale	-	-	124 309	-	-	**124 309**
Investment property	-	-	-	-	523	**523**
Property, equipment and intangible assets	-	-	-	-	348 695	**348 695**
Other assets	21 648	72 232	53 042	-	14 182	**161 104**
Total assets	**20 601 045**	**2 360 898**	**2 718 167**	**8 219 197**	**625 210**	**34 524 517**
Liabilities						
Due to banks	135 107	1 003 493	-	-	-	**1 138 600**
Customer accounts	16 249 067	516 260	656 392	19 380	-	**17 441 099**
Debt securities issued	111 406	692 849	1 909 963	5 495 651	-	**8 209 869**
Deferred tax liability	-	-	-	-	40 518	**40 518**
Other liabilities	100 127	11 842	19 869	3 383	15 252	**150 473**
Total liabilities	**16 595 707**	**2 224 444**	**2 586 224**	**5 518 414**	**55 770**	**26 980 559**
Net position	**4 005 338**	**136 454**	**131 943**	**2 700 783**	**569 440**	**7 543 958**
Cumulative liquidity gap	**4 005 338**	**4 141 792**	**4 273 735**	**6 974 518**	**7 543 958**	**-**

The maturity analysis does not reflect the historical stability of current accounts. Balances of those accounts are shown in the "on demand" category of the tables above. In practice, however, funds are withdrawn after a longer period.

29.3 Market risk

The bank takes market risk that represents the risk that fair values or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk arises in case of open positions on interest, currency and equity instruments, which are liable to general and specific fluctuations in the market and changes of degree of volatility of market rates.

The Bank manages market risk by a periodic evaluation of potential losses as a result of negative changes of market condition and establishment of adequate limits for the size of admissible losses. Limits for the amount of the trading positions liable to market risk, are approved by Credit and financial committee on the basis of the analysis carried out by Service of financial analysis and risk management.

(In thousands of Russian Rubles)

29. Financial risk management (continued)

Limits on the issuer of debt securities are approved separately by Credit and financial committee.

Interest rate risk.

The Bank takes the risk related to influence of fluctuations of market interest rates on its financial position and future cash flows. Such changes can increase the level of interest margin, however in case of an unexpected flow of interest rates the interest margin can also decrease.

The Bank controls interest risk by coordination of assets and liabilities on terms of their return. Monitoring of coordination of terms of return of assets and liabilities is carried out by the Treasury Department and Service of financial analysis and risk management.

The tables below present the analysis of interest risk of the Bank. Interest-earning assets and liabilities of the Bank are reflected in the table at balance cost and grouped in contractual terms of revision of interest rates or maturity date, depending on which of the specified dates is earlier.

31 December 2016

	On demand and less than 1 month	1 to 6 months	6 months to 1 year	more than 1 year	overdue with indefinite term	Total
Interest-bearing assets						
Due from banks	1 500 415	180 125	-	-	-	**1 680 540**
Loans to customers	383 824	1 588 186	3 277 453	5 576 026	1 394	**10 826 883**
Debt liabilities available for sale	-	776 128	1 889 219	7 755 920	-	**10 421 267**
Total interest-bearing assets	**1 884 239**	**2 544 439**	**5 166 672**	**13 331 946**	**1 394**	**22 928 690**
Interest-bearing liabilities						
Due to banks	82 374	-	-	-	-	**82 374**
Time deposits	6 491 230	128 864	488 438	61 429	-	**7 169 961**
Debt securities in issue	218	5 683 601	50 223	-	-	**5 734 042**
Total interest-bearing liabilities	**6 573 822**	**5 812 465**	**538 661**	**61 429**	**-**	**12 986 377**
Interest gap for December 31, 2016	**(4 689 583)**	**(3 268 026)**	**4 628 011**	**13 270 517**	**1 394**	**9 942 313**

(In thousands of Russian Rubles)

29. Financial risk management (continued)

31 December 2015	On demand and less than 1 month	1 to 6 months	6 months to 1 year	more than 1 year	overdue with indefinite term	Total
Interest-bearing assets						
Due from banks	5 048 125	792 305	1 099 099	-	-	**6 939 529**
Loans to customers	362 254	1 496 361	1 329 957	8 219 197	261 810	**11 669 579**
Debt liabilities available for sale	468 377	3 342 398	2 404 338	4 615 651	-	**10 830 764**
Total interest-bearing assets	**5 878 756**	**5 631 064**	**4 833 394**	**12 834 848**	**261 810**	**29 439 872**
Interest-bearing liabilities						
Due to banks	135 000	1 003 493	-	-	-	**1 138 493**
Time deposits	12 458 253	516 260	656 392	19 380	-	**13 650 285**
Debt securities in issue	111 406	7 688 500	409 963	-	-	**8 209 869**
Total interest-bearing liabilities	**12 704 659**	**9 208 253**	**1 066 355**	**19 380**	**-**	**22 998 647**
Interest gap for December 31, 2015	**(6 825 903)**	**(3 577 189)**	**3 767 039**	**12 815 468**	**261 810**	**6 441 225**

The tables below present the analysis of interest risk of the Bank. The analysis is prepared on the basis of the average interest rates applicable to various financial instruments, with use of interest rates for the end of the period.

	31 December 2016			**31 December 2015**		
	RUR	**USD**	**EUR**	**RUR**	**USD**	**EUR**
Assets						
Due from banks	10.13%	-	-	10.33%	-	-
Loans to customers	13.74%	12.64%	-	12.03%	13.27%	-
Financial assets available for sale	10.06%	6.58%	-	13.54%	5.47%	3.73%
Liabilities						
Due to banks	10.10%	-	-	12.07%	-	-
Customer accounts	8.83%	2.31%	1.50%	11.29%	3.00%	2.50%
Debt securities issued	12.36%	-	-	14.04%	1.00%	-

The following table represents sensitivity of profit for the year to reasonably possible changes of interest rates as of the reporting date with all other variable risk factors held constant. The effect on profit is related to revaluation of the financial assets available for trade. The effect on equity is estimated by revaluation of the financial assets available for sale with a constant interest rate.

(In thousands of Russian Rubles)

29. Financial risk management (continued)

Currency	Increase %	Effect on profit for the year	Effect on equity	Increase %	Effect on profit for the year	Effect on equity
	2016	**2016**	**2016**	**2015**	**2015**	**2015**
RUR	2%	1 686	(42 437)	2%	2 448	(37 766)
USD	2%	-	(31 601)	2%	-	(26 128)

Currency risk

The Bank takes on exposure to risk related with the effects of changes in foreign currency exchange rates on its financial position and cash flows. The Bank carries out daily monitoring of the open foreign exchange position.

As an instrument of currency risk management the Bank uses internal limits at the size of open foreign exchange position and loss of open foreign exchange position established by the existing intra-bank normative documents, and system of the obligatory restrictions set by the Central Bank of the Russian Federation, which includes open position limits per each currency (up to 10% of equity calculated in accordance with the CBR requirements) and aggregate open position limit per all currencies (up to 20% of equity calculated in accordance with the CBR requirements. The Bank adheres to conservative policy of currency risk management, opening a foreign exchange position, generally in the most often used currencies in the Russian Federation (the US dollar and the euro), and in volumes much lower than the limits of an open foreign exchange position established by CBR.

The Treasury Department of the Bank carries out centralized control of currency risk of the Bank.

General analysis of the Bank's currency risk is presented below. The Bank is not using the analysis given below for currency risk management.

	31 December 2016				
	RUR	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and cash equivalents	7 208 900	750 485	134 965	7 676	**8 102 026**
Obligatory reserves with the CBR	73 354	-	-	-	**73 354**
Due from banks	1 500 465	181 935	-	-	**1 682 400**
Loans to customers	10 823 224	3 659	-	-	**10 826 883**
Financial assets available for sale	6 062 681	4 385 586	-	-	**10 421 267**
Current income tax assets	87 638	-	-	-	**87 638**
Deferred tax asset	84 435	-	-	-	**84 435**
Long-term assets available for sale	150 513	-	-	-	**150 513**
Investment property	523	-	-	-	**523**
Property, equipment and intangible assets	379 838	-	-	-	**379 838**
Other assets	36 303	737	1 097	-	**38 137**
Total assets	**26 407 874**	**5 295 402**	**136 062**	**7 676**	**31 847 014**
Liabilities					
Due to banks	82 423	-	-	-	**82 423**
Customer accounts	17 640 605	117 340	53 968	90	**17 812 003**
Debt securities issued	5 734 042	-	-	-	**5 734 042**
Other liabilities	48 063	-	43	-	**48 106**
Total liabilities	**23 505 133**	**117 340**	**54 011**	**90**	**23 676 574**
Net position	**2 902 741**	**5 178 062**	**82 051**	**7 586**	**8 170 440**
Credit related commitments	1 604 023	-	-	-	**1 604 023**

(In thousands of Russian Rubles)

29. Financial risk management (continued)

	31 December 2015				
	RUR	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and cash equivalents	139 283	1 848 268	2 298 775	6 464	**4 292 790**
Obligatory reserves with the CBR	44 685	-	-	-	**44 685**
Due from banks	5 048 175	1 892 133	-	-	**6 940 308**
Loans to customers	11 658 285	11 294	-	-	**11 669 579**
Financial assets available for sale	5 662 438	4 858 565	309 761	-	**10 830 764**
Current income tax assets	111 760	-	-	-	**111 760**
Long-term assets available for sale	124 309	-	-	-	**124 309**
Investment property	523	-	-	-	**523**
Property, equipment and intangible assets	348 695	-	-	-	**348 695**
Other assets	160 373	731	-	-	**161 104**
Total assets	**23 298 526**	**8 610 991**	**2 608 536**	**6 464**	**34 524 517**
Liabilities					
Due to banks	1 138 600	-	-	-	**1 138 600**
Customer accounts	16 936 285	491 007	13 697	110	**17 441 099**
Debt securities issued	8 136 940	72 929	-	-	**8 209 869**
Deferred tax liability	40 518	-	-	-	**40 518**
Other liabilities	147 029	3 408	36	-	**150 473**
Total liabilities	**26 399 372**	**567 344**	**13 733**	**110**	**26 980 559**
Net position	**(3 100 846)**	**8 043 647**	**2 594 803**	**6 354**	**7 543 958**
Credit related commitments	1 977 209	-	-	-	**1 977 209**

The following table shows sensitivity of the Bank's profit for the year to reasonably possible changes in exchange rates of major currencies against the Russian ruble at the end of the reporting period, with all other variables held constant. The effect on profit for the year is related to changes in the carrying amounts of monetary assets and liabilities denominated in foreign currencies. Positive figure indicates an increase in profit for the year due to strengthening of the respective foreign currency against the Russian Ruble.

Currency	**Increase %**	**Effect on profit for the year**	**Increase %**	**Effect on profit for the year**
	2016	**2016**	**2015**	**2015**
USD	20%	828 490	20%	1 286 984
EUR	20%	13 128	20%	415 168

For the purposes of regulation of currency risk related to the increase in balance long position on the monetary assets nominated in foreign currency, and, as a result, to increase of sensitivity of profit to change of rates of foreign currencies, the Bank signs contracts of one-day exchange swaps with other credit institutions with overnight maturity date at the fixed exchange rate established by the Bank of Russia (Note 30).

(In thousands of Russian Rubles)

29. Financial risk management (continued)

Information of foreign exchange position on derivative financial instruments is given below in the table .

	31 December 2016		31 December 2015	
	USD	**EUR**	**USD**	**EUR**
Position on derivative financial instruments	(5 006 180)	(82 756)	(6 715 554)	(2 560 835)

The following table shows sensitivity of the Bank's profit for the year to reasonably possible changes in exchange rates of major currencies against the Russian ruble at the end of the reporting period, taking into account balance positions of monetary assets and liabilities nominated in foreign currency and positions of derivative financial instruments.

Currency	**Increase %**	**Effect on profit for the year**	**Increase %**	**Effect on profit for the year**
	2016	**2016**	**2015**	**2015**
USD	20%	27 501	20%	212 495
EUR	20%	(113)	20%	5 435

30. Commitments and off-balance sheet arrangements

Litigation
From time to time the Bank is a party to claims and legal proceedings arising in the normal course of business. Management believes that they will have no material adverse impact on the Bank's future financial position or performance.

Tax legislation
Russian commercial legislation, including tax legislation, may allow more than one interpretation. In addition, taxation authorities often make arbitrary judgments of business activities. Therefore, management's judgments of the Bank's business events may differ from those made by taxation authorities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by taxation authorities, the Bank may be assessed additional taxes, and possibly significant penalties and interest. Tax periods are open for review by taxation authorities for 3 years.

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

	31 December	
	2016	**2015**
Less than 1 year	12 645	2 338
1 to 5 years	37 611	23
Total operating lease commitments	**50 256**	**2 361**

(In thousands of Russian Rubles)

30. Commitments and off-balance sheet arrangements (continued)

Credit related commitments

The guarantees given out by the Bank for December 31, 2016 and 2015 are reflected according to IAS 39 at fair value in the balance of the Bank. Total off-balance sheet guarantee commitments of the Bank are presented below.

	31 December	
	2016	**2015**
Financial guarantee	1 593 751	1 977 209
Commitment to extend credit and guarantees	10 272	-
Total credit related commitments	**1 604 023**	**1 977 209**

In 2016 and 2015 the provision for impairment of credit related commitments was not charged .

Derivative financial instruments

The table below presents a comparison between the contractual or agreed amounts and fair values of derivative financial instruments. It reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2016 and 2015.

	31 December 2016			
	Asset value	**Liability value**	**Positive fair value**	**Negative fair value**
Foreign currency transactions:				
Sale of USD	5 006 180	(4 992 063)	14 117	-
Sale of EUR	82 756	(82 954)	-	(198)

	31 December 2015			
	Asset value	**Liability value**	**Positive fair value**	**Negative fair value**
Forward:				
bills of credit institutions	72 585	(72 585)	-	-
Foreign currency transactions:				
Sale of USD	9 471 963	(9 538 961)	270	(67 268)
Purchase of USD	2 768 158	(2 756 409)	13 200	(1 451)
Sale of EUR	5 403 259	(5 429 933)	942	(27 616)
Purchase of EUR	2 842 959	(2 842 424)	1 087	(552)

(In thousands of Russian Rubles)

31. Fair value of financial instruments

Fair value represents a sum for which an asset is possible to be exchanged or a liability can be settled during transaction between well informed parties interested in such transaction and independent from each other, except for cases of distress selling or liquidation of organization. The best basis for determination of fair value of a financial instrument is published quotes of the active market.

Fair value of financial instruments of the Bank is defined as follows:

- for financial instruments traded in active liquid markets, - on the basis of quoted market price;
- for other financial instruments - according to the standard techniques of evaluation on the basis of analysis of future cash flows discounted at the average market rates as at the end of the year for each type of financial instruments.

The carried out evaluation showed that carrying value of financial instruments of the Bank considered at the amortized cost does not differ significantly from their fair value as of reporting date. These financial instruments include: cash and cash equivalents, due from other banks, loans and advance payments to customers, due to banks, customer accounts, debt securities issued.

The analysis of financial instruments considered at fair value is given below:

31 December 2016	Evaluation on basis of active market quotation	Evaluation on basis of market data	Evaluation with non-market data	Total
	1 level	2 level	3 level	
Financial assets				
Available for sale	10 421 267	-	-	**10 421 267**
Total	**10 421 267**	-	-	**10 421 267**

31 December 2015	Evaluation on basis of active market quotation	Evaluation on basis of market data	Evaluation with non-market data	Total
	1 level	2 level	3 level	
Financial assets				
Available for sale	9 236 329	-	-	**9 236 329**
Total	**9 236 329**	-	-	**9 236 329**

In 2016 and 2015 the Bank did not distribute the instruments considered at fair value by hierarchy levels of fair value evaluation.

(In thousands of Russian Rubles)

32. Related party transactions

For preparation of these financial statements the parties are considered related if one of them has an opportunity to control the other, is with it under general control or can have essential impact on taking financial and operational decisions by the other party. By consideration of relationship with all related parties, economic content of such relationship, and not just their legal form, is taken into account.

During its usual activity the Bank operates with the related parties, these transactions are carried out mainly under the market conditions.

As at December 31, 2016 the related parties of the Bank were:

Management staff	Position	Functions
Grib Sergey Alekseevich	General Director, Chairman of the Management Board	management
Kurkov Dmitry Borisovich	Deputy Director General	management
Sokolov Andrey Yuryevich	Deputy Director General	management
Khasanov Rafil Gennadevich	Deputy Director General	management
Knyazev Maxim Gennadevich	member of the Board	management
Betnev Vladislav Yuryevich	Chief Accountant	management

and also Council members .

In 2016 and 2015 the Bank had no operations (transactions) with related parties amount of which exceeds five percent of balance cost of the relevant items of assets or liabilities.

Information on amount of remuneration to the key managerial personnel in 2016 and 2015 is given below:

	2016	2015
Key managerial personnel of the Bank		
Salary and other short-term remuneration	33 160	29 443

33. Critical accounting judgments and estimates

In the application of the Bank's accounting policies management uses judgments and estimates. The following are the critical judgments that have the most significant effect on the amounts recognized in the financial statements, and estimates that may result in material adjustments to the carrying amounts of assets and liabilities during the next financial year:

Impairment of loans and receivables
The Bank assesses its loan portfolio for impairment on a regular basis. When the Bank determines whether impairment loss should be recorded in profit or loss, it uses professional judgments about objective evidence of measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified for an individual loan in the portfolio. Such evidence may include measurable adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio used to forecast future cash flows. For new types of loans, where no historical loss experience is available, the Bank uses available market information for similar loans. The methodology and assumptions used to estimate the amounts and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

33. Critical accounting judgments and estimates (continued)

Depreciation of investment in equity instruments available for sale
The Bank defines that investments in equity instruments available for sale are depreciated, when considerable or long decrease of their fair value lower cost value is observed. Such definition demands professional judgment. At its development the Bank estimates, along with other factors, normal volatility of share price. Besides, the evidence of depreciation can be data on considerable deterioration of financial position of the issuer. As at December 31, 2016 and 2015 there are no depreciated equity instruments available for sale.

Income taxes. Russian tax laws and regulations suggest a variety of interpretations (Note 25).

34. Capital Management

The Bank maintains necessary capital base to cover risks inherent in its operations and facilitate development of its business. The primary objectives of capital ratio management is ensuring the ability of the Bank to carry out the objectives on strategic growth of assets by full compliance with requirements to capital ratio under the conditions of usual business dealing and under the conditions of stress.

Management of capital in the Bank is directed at achievement of the following aims:
- ensuring sufficient level of the capital for performance of strategic business challenges and coordinated business plans of the Bank;
- ensuring necessary financial stability of the Bank in development;
- minimization of risk of non-execution of requirements of the regulator to capital indicators (size, sufficiency, quality);
- ensuring investment appeal, maintenance of high credit ratings.

Realization of policy in the field of capital management is guided by achievement of strategic objectives of development of the Bank taking into account the directions of development providing economic basis of formation of own financial resources and effective use of the capital in the future period. The internal assessment procedures of capital adequacy including planning of the capital proceeding from the established development strategy of bank, reference points of growth of business and results of a comprehensive current assessment of risks, stress testing of stability of bank in relation to internal and external factors of risks are for this purpose developed. A main objective of assessment procedures is ensuring capital adequacy for a covering of the accepted risks on a constant basis.

For capital management and ensuring its sufficiency on covering of risks of the Bank "Provision on Organization of Internal Capital Adequacy Assessment Process (ICAAP)" is developed. Main objective of ICAAP is ensuring sufficiency of internal capital for a covering of the risks accepted by the Bank on a constant basis. ICAAP are developed taking into account strategic objectives on development of business and planned (target) level of capital determined in plans for development of the Bank.

The list of typical risks inherent in activity of the Bank is defined by the approved "Policy on bank risk management in Bank JSC MMA". For definition of capital requirements for risk, covering the Bank identifies for itself essential and insignificant risks. Concerning each of essential types of risks, the Bank calculates capital requirements for risk covering taking into account plans for business development. Concerning other (insignificant) types of risk the Bank allocates fixed percent from the capital for their covering on the basis of professional judgment.

Annually the Board of Directors of the Bank approves limits on the acceptable levels by each type of risk (risk appetites) and limit on cumulative risk level (cumulative risk appetite) representing the maximum possible shares of capital which the Bank can allocate for risk covering with achievement of the strategic objectives.

(In thousands of Russian Rubles)

34. Capital Management (continued)

During ICAAP period (calendar year) the Service of financial analysis and risk management estimates risks of the Bank by the established techniques and controls observance of limits of types of risks and cumulative risk appetite. In 2015 the limits on the acceptable levels of risks were not broken.

Regulations and standards of the Bank of Russia provide three levels of capital: basic, main and general – and corresponding statutory capital ratio H1.1 (regulatory minimum requirement of 4,5%, before January 1, 2016 5,0%), H1.2 (regulatory minimum requirement since January 1, 2015 6,0%), H1.0 (regulatory minimum requirement of 8,0%, before January 1, 2016 10,0%).

During 2016 and 2015 the Bank did not violate the requirements to capital established by normative documents of the Bank of Russia.

Information on the size of capital of the Bank calculated according to requirements of the Bank of Russia and the actual value of sufficiency level of the capital of the Bank as at December 31, 2016 and 2015 is given below:

	2016	**2015**
Base capital	7 522 493	7 512 680
Core capital	7 522 493	7 512 680
Additional capital	436 582	-
Total capital base	**7 959 075**	**7 512 680**
Sufficient base capital ratio	26.9	20.5
Sufficient core capital ratio	26.9	20.5
Sufficient capital ratio	28.4	20.5

35. Events after the reporting period

According to the decision of the sole shareholder of the Bank of 30.03.2017 the General Director, the Chairman of the Board Grib Sergey Alekseevich was dismissed and since March 31, 2017 Voloshin Ilya Aleksandrovich was appointed as Company Acting General Director.

No other significant events have occurred between the end of the reporting period and the date when these financial statements were authorized for issue.

Authorized by the Management Board and signed on behalf of the Management Board on 27 April 2017.

Deputy General Director
R.G. Khasanov

Chief Accountant
V.Y. Betnev

Интерком Аудит
Для аудиторских заключений

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/E.V. Korotkikh

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