Independent auditor's report
on the financial statements of
Credit Agricole CIB AO
for the year ended 31 December 2016

April 2017

Contents

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Independent auditor's report

To the shareholders and Board of Directors of Credit Agricole CIB AO

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Credit Agricole CIB AO, which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2016, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios (hereinafter, the "obligatory ratios") established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2016, we determined:

1) Whether the Bank complied as at 1 January 2017 with the obligatory ratios established by the Bank of Russia.
2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - Subordination of the risk management departments;
   - The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - Oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Bank as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

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Conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2016 the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at 31 December 2016 that establish the methodologies for detecting and managing credit, interest, operational and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2016, the Bank had a reporting system pertaining to credit, interest, operational and liquidity risks that were significant to the Bank and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of credit, interest, operational and liquidity risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies as well as recommendations on their improvement.

- We found that, as at 31 December 2016, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2016, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's internal audit division.

The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

S.M. Taskaev
Partner
Ernst & Young LLC

24 April 2017

Details of the audited entity

Name: Credit Agricole CIB AO
Record made in the State Register of Legal Entities on 3 September 2002, State Registration Number 1027800000953.
Address: Russia 191186, Saint-Petersburg, Nevsky pr., 12.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Statement of Financial Position

as at 31 December 2016

(In thousands of Russian roubles)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	6	14 769 658	36 792 226
Mandatory cash balances with the Central Bank of the Russian Federation		374 196	377 746
Due from other banks	7	–	829 389
Loans and advances to customers	8	27 915 000	17 484 666
Securities available for sale	9	2 174 240	1 841 161
Current income tax asset		39 478	72 332
Fixed assets	10	1 254 034	1 338 684
Derivative financial instruments	27	13 022 907	21 294 054
Other assets	11	77 671	133 431
Total assets		**59 627 184**	**80 163 689**
Liabilities			
Due to other banks	12	8 624 120	767 075
Customer accounts	13	25 532 557	43 804 546
Deferred income tax liability	22	190 673	198 169
Derivative financial instruments	27	13 032 514	21 312 624
Other liabilities	14	305 561	226 542
Subordinated debt	15	6 306 951	7 573 901
Total liabilities		**53 992 376**	**73 882 857**
Equity			
Share capital	16	2 959 679	2 959 679
Share premium	16	734 148	734 148
Revaluation reserve for premises		675 600	683 390
Revaluation reserve for securities available for sale		24 126	2 077
Retained earnings		1 241 255	1 901 538
Total equity		**5 634 808**	**6 280 832**
Total liabilities and equity		**59 627 184**	**80 163 689**

Signed and authorized for release on 24 April 2017.

Erik Koebe
President

Alla Astyukevich
Chief Accountant

The notes on pages 12-54 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

(In thousands of Russian roubles)

	Note	2016	2015
Interest income	17	**2 818 303**	**3 366 765**
Loans and advances to customers		1 725 875	2 581 259
Due from other banks		983 700	729 307
Securities available for sale		108 728	56 199
Interest expense	17	**(2 727 175)**	**(2 968 189)**
Customer accounts		(1 190 008)	(1 166 721)
Due to other banks		(47 584)	(478 354)
Customer deposits		(1 489 583)	(1 323 114)
Net interest income		**91 128**	**398 576**
Fee and commission income	18	365 788	847 547
Fee and commission expense	18	(117 229)	(156 450)
Losses less gains from operations with securities available for sale		9 328	(689)
(Losses less gains) / gains less losses from trading in foreign currencies		2 143 888	(1 245 191)
Foreign exchange translation (losses less gains) / gains less losses	19	(879 531)	2 311 328
Gains less losses / (losses less gains) from operations with interest rate derivatives	20	(3 070)	(17 786)
Reversal of allowance for impairment of premises	10	(1 856)	10 704
Other operating income		45 190	94 752
Non-Interest income		**1 562 508**	**1 844 215**
Administrative and other operating expenses	21	(1 287 897)	(1 109 914)
Non-Interest expenses		**(1 287 897)**	**(1 109 914)**
Profit before tax		**365 739**	**1 132 877**
Income tax expense	22	(119 649)	(251 511)
Profit for the year		**246 090**	**881 366**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Gains/(losses) arising during the year from revaluation of available for sale securities		27 561	50 909
Income tax influence		(5 512)	(10 182)
Net other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met		**22 049**	**40 727**
Items that will not be reclassified to profit or loss			
Revaluation of premises		(9 738)	56 178
Income tax expense recorded in other comprehensive income		1 948	(11 236)
Net other comprehensive income not to be reclassified subsequently to profit or loss		**(7 790)**	**44 942**
Other comprehensive income for the year		**14 259**	**85 669**
Total comprehensive income for the year		**260 349**	**967 035**

The notes on pages 12-54 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2016

(In thousands of Russian roubles)

	Share capital	Share premium	Revaluation reserve of premises	Revaluation reserve for available for sale securities	Retained earnings	Total equity
Balance at 31 December 2014	**2 959 679**	**734 148**	**638 448**	**(38 650)**	**1 380 119**	**5 673 744**
Profit for the year	–	–	–	–	881 366	**881 366**
Other comprehensive income	–	–	44 942	40 727	–	**85 669**
Total comprehensive income for 2015	**–**	**–**	**44 942**	**40 727**	**881 366**	**967 035**
Dividends (Note 23)	–	–	–	–	(359 947)	**(359 947)**
Balance at 31 December 2015	**2 959 679**	**734 148**	**683 390**	**2 077**	**1 901 538**	**6 280 832**
Profit for the year	–	–	–	–	246 090	**246 090**
Other comprehensive expense	–	–	(7 790)	22 049	–	**14 529**
Total comprehensive income for 2016	**–**	**–**	**(7 790)**	**22 049**	**246 090**	**260 349**
Dividends (Note 23)	–	–	–	–	(906 373)	**(906 373)**
Balance at 31 December 2016	**2 959 679**	**734 148**	**675 600**	**24 126**	**1 241 255**	**5 634 808**

The notes on pages 12-54 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2016

(In thousands of Russian roubles)

	Note	2016	2015
Cash flows from operating activities			
Interest received		2 852 221	3 566 494
Interest paid		(2 387 077)	(2 708 835)
Fees and commissions received		374 897	975 703
Fees and commissions paid		(115 527)	(197 755)
Gains/(losses) received from trading in foreign currencies		2 143 888	(1 245 191)
Gains received from operations with interest rate derivatives		7 159	12 458
Other operating income received		81 343	41 343
Administrative and other operating expenses paid		(1 258 647)	(1 160 012)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**1 698 257**	**(715 795)**
Changes in operating assets and liabilities			
Mandatory cash balances with Central Bank of the Russian Federation		3 550	29 184
Due from other banks		798 399	2 950 022
Securities available for sale	9	(289 705)	(1 092 571)
Loans and advances to customers		(12 209 209)	5 201 480
Other assets		(8 135)	212
Due to other banks		7 853 149	(520 116)
Customer accounts		(16 206 972)	2 451 935
Other liabilities		134 505	(18 952)
Net cash received from/(used in) operating activities before tax		**(18 226 161)**	**8 285 399**
Income tax paid		(97 854)	(317 744)
Net cash received from/(used in) operating activities		**(18 324 015)**	**7 967 655**
Cash flows from investing activities			
Acquisition of fixed assets	10	(18 290)	(96 906)
Proceeds from disposal of fixed assets		5 870	3 224
Net cash used in investing activities		**(12 420)**	**(93 662)**
Cash flows from financing activities			
Dividends paid	23	(906 373)	(359 947)
Interest paid on subordinated debt		(325 010)	(268 194)
Net cash used in financing activities		**(1 231 383)**	**(628 141)**
Effect of exchange rate changes on cash and cash equivalents		(2 454 750)	5 656 251
Net (decrease)/increase in cash and cash equivalents		**(22 022 568)**	**12 902 101**
Cash and cash equivalents at the beginning of the year		36 792 226	23 890 125
Cash and cash equivalents at the end of the year	6	**14 769 658**	**36 792 226**

The notes on pages 12-54 are an integral part of these financial statements.

(In thousands of Russian roubles)

1. Introduction

These financial statements of Credit Agricole CIB AO (the “Bank”) have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank’s shareholders are Credit Agricole CIB France (former Calyon S.A.) (“the Parent Bank”) holding 82,4% of share capital and Credit Agricole CIB Global Banking (former Calyon Global Banking S.A.) holding 17,6% of share capital (2015: Credit Agricole CIB France holding 82,4% of share capital and Credit Agricole CIB Global Banking holding 17,6% of share capital). Credit Agricole CIB AO is a part of Credit Agricole CIB Group. The ultimate shareholder of the Bank is Crédit Agricole SA.

The Bank’s shareholders do not have the power to amend the financial statements after the issue.

The Bank’s principal business activity is corporate and investment banking operations within the Russian Federation. The Bank has been operating under a full general banking license issued by the Central Bank of the Russian Federation (“CBR”) since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law No. 177-FZ *On Insurance of Individuals Deposits in the Russian Federation* dated 23 December 2003.

On 22 December 2016 Fitch Ratings confirmed long-term default rating (IDRs) in foreign and local currencies as “BBB”-, changed negative outlook to stable. Short-term default rating (IDRs) in foreign and local currencies as “F3”. National Long-term Rating confirmed as “AAA(rus)” with stable outlook. Support rating confirmed as “2”.

The Bank’s registered address is Russian Federation, Saint Petersburg, Nevsky prospekt, 12. The Bank has one (2015: one) branch in Moscow.

2. Operating Environment of the Bank

Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 26). During 2016 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2016:

- The CBR exchange rate changed from RUB 72,8827 to RUB 60,6569 per USD and from RUB 79,6972 to RUB 63,8111 per EUR;
- The CBR key rate decreased from 11,0% p.a. to 10,0% p.a;
- Access to international financial markets funding was limited for certain entities.

The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2016:

- During the first quarter 2017 the CBR exchange rate changed from RUB 56,3779 to RUB 60,6569 per USD and from RUB 60,0249 to RUB 65,0322 per EUR;
- Bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

These and other events may have a significant impact on the Bank’s operations and financial position, the effect of which is difficult to predict.

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

(In thousands of Russian roubles)

3. Basis of Preparation

These financial statements of Credit Agricole CIB AO have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities, derivative financial instruments and buildings have been measured at fair value.

These financial statements are presented in thousands of Russian rubles ("RUB"), except per share or unless otherwise specified.

4. Summary of Accounting Policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as the Bank does not apply the consolidation exception.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Fair value measurement

The Bank measures financial instruments, such as available-for-sale securities, derivatives and non-financial assets, at fair value at each balance sheet date. Fair values of financial instruments are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or financial assets available for sale, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Financial assets available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the statement of profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Mandatory reserves on the Central Bank of Russia (the CBR) account

Mandatory cash balances with the CBR are carried at amortised cost and represent non-interest bearing deposits which are not available to finance the Bank’s day-to-day operations.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Repurchase and reverse repurchase agreements and securities lending (continued)

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards, currency swaps and interest rate swaps and currency-interest rate swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss in foreign exchange translation (losses less gains)/gains less losses and Gains less losses / (losses less gains) from operations with interest rate derivatives, depending on the nature of the instrument.

For fair value calculation of currency swaps and forwards, interest rate swaps and forwards Bank uses method of discounted cash flows. There is possibility of differences appearing between fair value at initial recognition which equals to deal price and recalculated value. These differences are initially recognized in other assets or other liabilities with further linear amortization till the maturity of the derivative.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortization process.

Leases

Operating − Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating − Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Measurement of financial instruments at initial recognition (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- ► If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- ► In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ► The normal course of business;
- ► The event of default; and
- ► The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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 significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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 a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 years 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 year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or 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.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Fixed assets

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed on a timely basis to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for fixed assets included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for fixed assets.

An annual transfer from the revaluation reserve for fixed assets to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Leasehold improvements	20
Equipment	3-10

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time.* Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.
- *Fee income from providing transaction services.* Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

Financial statements are presented in Russian rubles that are functional currency and presentation currency of the Bank. Transactions in foreign currencies are initially translated to the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date. Income and expenses arising from the translation of transactions in foreign currencies are recognised in the statement of profit and loss under “(Expenses less income) / income less expenses / from revaluation of foreign currency". Non-monetary items recorded at actual value in foreign currency are translated at the exchange rates prevailing on the transaction date. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate prevailing at the date the fair value was determined.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank’s financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank’s financial assets, but no impact on the classification and measurement of the Bank’s financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank.

(In thousands of Russian roubles)

4. Summary of Accounting Policies (continued)

Standards issued but not yet effective (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank.

5. Significant Accounting Judgments and Estimates

The Bank applies estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated on the basis of management's experience and other factors, including expectations regarding future events that management considers reasonable under the current circumstances. In the process of applying the accounting policies, management use professional judgments and estimates. Professional judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities during the next financial year include

Going concern

Management prepared these financial statements on a going concern basis. In making this judgment management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Bank.

Impairment losses on loans and advances

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the Statement of Profit and Loss and Other Comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at 31 December 2016 the Bank estimates the quality of loan portfolio as high with no problem-/substandard-/distressed-exposures forced to be restructured caused by the borrower insolvency.

Fair value of derivative financial instruments and certain other instruments

Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 28.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 30.

(In thousands of Russian roubles)

5. Significant Accounting Judgments and Estimates (continued)

Revaluation of premises

Fair value of premises is determined with valuation techniques. Valuation is based on the market value. Market value of the Bank's premises is obtained from the report of independent appraiser, who hold a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. Market value was based on the direct comparison of the revalued object with other objects sold or offered for sale. For details please refer to Note 10. If the assessed change in the fair value of the Bank's premises differs by 10%, the fair value change of the Bank's premises would be approximately RUB 100 396 thousand (before deferred tax) as at 31 December 2016 (2015: RUB 103 628 thousand).

Frequency of revaluation of premises

The premises of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Bank's management uses judgment for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

Operating lease contract

The Bank has an operating lease contract dated 1992 to lease a building located in St. Petersburg. To classify the lease contract as an operating lease the Bank applied criteria set in IAS 17 *Leases*. Specifically the Bank considers that the lease does not transfer substantially all the risks and rewards incidental to ownership to the Bank and that the fair value of the building at the inception of the lease was significantly higher than the present value of the minimum lease payments.

Tax legislation

Tax, currency and custom legislation of the Russian Federation is subject to varying interpretations. Please see note 26.

6. Cash and Cash Equivalents

Cash and cash equivalents include:

	2016	2015
Cash on hand	46 334	65 989
Cash balances with the CBR (other than mandatory reserve deposits)	414 172	5 360 029
Overnight placements with the CBR	1 900 934	8 002 191
Correspondent accounts and overnight placements with other banks		
- Russian Federation	29 929	1 433 658
- Other countries	11 992 015	20 625 949
Settlement accounts with trading systems	16 853	741 296
Placements with other banks with original maturities of less than three months	369 421	563 114
Total cash and cash equivalents	**14 769 658**	**36 792 226**

Correspondent accounts, overnight placements with other banks and placements with other banks with original maturities of less than three months are placed with large Russian and European banks.

(In thousands of Russian roubles)

6. Cash and Cash Equivalents (continued)

The credit quality of cash and cash equivalents balances excluding cash on hand may be summarised based on internal credit ratings as described in Note 24 as follows at 31 December 2016:

	Cash balances with the CBR (other than mandatory reserve deposits)	Overnight placements with CBR	Correspon-dent accounts and overnight placements with other banks	Settlement accounts with trading systems	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired						
A+	–	–	11 629 576	–	–	**11 629 576**
A	–	–	192 600	–	–	**192 600**
B+	–	–	163 204	–	–	**163 204**
B	–	–	6 673	–	–	**6 673**
C	414 172	1 900 934	–	–	–	**2 315 106**
C-	–	–	29 891	16 853	369 421	**416 165**
Total cash and cash equivalents, excluding cash on hand	**414 172**	**1 900 934**	**12 021 944**	**16 853**	**369 421**	**14 723 324**

The credit quality of cash and cash equivalents balances excluding cash on hand may be summarised based on internal credit ratings as described in Note 24 as follows at 31 December 2015:

	Cash balances with the CBR (other than mandatory reserve deposits)	Overnight placements with CBR	Correspon-dent accounts and overnight placements with other banks	Settlement accounts with trading systems	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired						
A+	–	–	20 456 977	–	187 882	**20 644 859**
A	–	–	70 834	–	–	**70 834**
B+	–	–	90 663	–	–	**90 663**
B	–	–	7 475	–	–	**7 475**
C	5 360 029	8 002 191	–	–	–	**13 362 220**
C-	–	–	1 433 658	741 296	375 232	**2 550 186**
Total cash and cash equivalents, excluding cash on hand	**5 360 029**	**8 002 191**	**22 059 607**	**741 296**	**563 114**	**36 726 237**

7. Due from other Banks

	2016	**2015**
Placements with other banks with original maturities of more than three months	–	829 389
Total due from other banks	**–**	**829 389**

There were neither past due nor impaired loans as at 31 December 2016 or 31 December 2015. As at 31 December 2015, 96,5% of due from other banks were collateralized by guarantees received from Credit Agricole Group in the total amount of RUB 800 000 thousand. Refer to Note 30.

(In thousands of Russian roubles)

7. Due from other Banks (continued)

Analysis by credit quality of placements with other banks with original maturities of more than three months outstanding at 31 December 2015 based on internal credit ratings as described in Note 24 is as follows:

	2016	2015
Current and not impaired		
A+	–	–
C-	–	829 389
D+	–	–
E+	–	–
Total due from other banks neither past due nor impaired	**–**	**829 389**

At 31 December 2015 the Bank had balances with 1 Russian bank with aggregated amounts above RUB 600 000 thousand. The total aggregate amount of these deposits was 829 389 RUB thousand or 100% of the total amount due from other.

Breakdown of due from other banks by the type of collateral as at 31 December 2015 is as follows:

	2016	2015
Unsecured loans	–	29 389
Loans collateralized by guarantees received from third parties	–	–
Loans collateralized by guarantees received from Credit Agricole CIB Group	–	800 000
Total due from other banks neither past due nor impaired	**–**	**829 389**

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

The effect of collateral at 31 December 2015:

	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Placements with other banks with original maturities of more than three months	800 000	800 000	29 389	–
Total due from other banks	**800 000**	**800 000**	**29 389**	**–**

At 31 December 2015, there were no placements with Credit Agricole with original maturities of more than three months.

At 31 December 2015 the estimated fair value of placements with other banks with original maturities of more than three months was RUB 829 389. Refer to Note 28. Interest rate and maturity analysis of loans and advances to customers are disclosed in Note 24.

(In thousands of Russian roubles)

8. Loans and Advances to Customers

Loans and advances to customers include:

	2016	2015
Corporate loans	23 420 117	15 344 313
Structured finance loans	4 494 883	2 140 353
Total loans and advances to customers	**27 915 000**	**17 484 666**

Corporate loans represent loans issued to finance borrower's working capital needs and operating expenses. Structured finance loans represent loans issued to finance capital expenditure related to development and new construction and trade finance operations of the borrowers.

As at 31 December 2016, 16,3% were syndicated loans in amount RUB 4 494 883 thousand (2015: 0%), which were included into structured finance loans.

There were no past due nor impaired loans as at 31 December 2016 or 31 December 2015, the Bank did not create provision for loan impairment at 31 December 2016 and 31 December 2015.

As at 31 December 2016, 99,8% of total loans and advances to customers were collateralized by guarantees received from Credit Agricole Group in the total amount of RUB 27 848 135 thousand (2015: 99,8% or RUB 17 450 393 thousand). Refer to Note 30.

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2016 based on internal credit ratings as described in Note 24 is as follows:

	Corporate loans	Structured finance loans	Total
Current and not impaired			
C	5 765 939	1 496 137	**7 262 076**
C-	14 795 591	2 998 746	**17 794 337**
C+	2 784 984	–	**2 784 984**
D	52 303	–	**52 303**
D+	21 300	–	**21 300**
Total loans and advances to customers	**23 420 117**	**4 494 883**	**27 915 000**

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2015 based on internal credit ratings as described in Note 24 is as follows:

	Corporate loans	Structured finance loans	Total
Current and not impaired			
C	10 049 590	–	**10 049 590**
C-	5 294 723	2 140 353	**7 435 076**
Total loans and advances to customers	**15 344 313**	**2 140 353**	**17 484 666**

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
Trade	4 887 380	18%	6 161 872	35%
Manufacturing	13 240 273	47%	5 262 097	30%
Leasing	–	–	3 471 810	20%
Construction	1 279 350	5%	1 785 573	10%
Tobacco	–	–	666 696	4%
Energy, utilities and mining	2 998 746	11%	105 960	1%
Chemicals	1 496 137	5%	30 658	0%
Financial services and insurance	4 010 914	14%	–	–
Other	2 200	0%	–	–
Total loans and advances to customers	**27 915 000**	**100%**	**17 484 666**	**100%**

(In thousands of Russian roubles)

8. Loans and Advances to Customers (continued)

At 31 December 2016 the Bank had 13 groups of related borrowers (2015: 8 groups of related borrowers) with the total amount of loans issued to the group of related borrowers more than RUB 600 000 thousand. The aggregate balance of these loans was RUB 27 144 748 thousand (2015: RUB 17 197 139 thousand) or 97,2% of the gross loan portfolio (2015: 98,4%).

Breakdown of loans and advances to customers by type of collateral at 31 December 2016 is as follows:

	Corporate loans	**Structured finance loans**	**Total**
Unsecured loans	64 336	2 528	**66 684**
Loans collateralized by guarantees received from Credit Agricole Group	23 355 781	4 492 355	**27 848 136**
Total loans and advances to customers	**23 420 117**	**4 494 883**	**27 915 000**

Breakdown of loans and advances to customers by type of collateral at 31 December 2015 is as follows:

	Corporate loans	**Structured finance loans**	**Total**
Unsecured loans	18 867	15 406	**34 273**
Loans collateralized by guarantees received from Credit Agricole Group	15 325 446	2 124 947	**17 450 393**
Total loans and advances to customers	**15 344 313**	**2 140 353**	**17 484 666**

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

The effect of collateral at 31 December 2016:

	2016		**2015**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	23 355 781	23 355 781	15 325 446	15 325 446
Structured finance loans	4 492 355	4 492 355	2 124 947	2 124 947
Total loans and advances to customers	**27 848 136**	**27 848 136**	**17 450 393**	**17 450 393**

At 31 December 2016 the estimated fair value of loans and advances to customers was RUB 27 915 000 thousand (2015: RUB 17 484 666 thousand). Refer to Note 28. Interest rate and maturity analysis of loans and advances to customers are disclosed in Note 24.

(In thousands of Russian roubles)

9. Securities Available for Sale

	2016	2015
Federal loan bonds (OFZ bonds)	2 174 240	1 444 817
Municipal bonds	–	396 344
Total securities available for sale	**2 174 240**	**1 841 161**

OFZ bonds are Russian rouble denominated government securities issued by the Ministry of Finance of the Russian Federation OFZ-25080-PD and OFZ-26206-PD. As at 31 December 2016 OFZ bonds have maturity dates in April and June 2017, coupon rate of 7,4% and yield to maturity of 8,39% and 8,17%. As at 31 December 2016, OFZ bonds are rated BBB- as per Standard and Poor's credit rating scale.

As at 31 December 2015 OFZ bonds have maturity dates of January 2016, coupon rate of 7,35% and yield to maturity of 10,2%. As at 31 December 2015, OFZ bonds were not rated as per Standard and Poor's credit rating scale.

As at 31 December 2015 municipal bonds have maturity dates of June 2016, coupon rate of 7,0% and yield to maturity of 11,9%. As at 31 December 2015, municipal bonds are rated BB+ as per Standard and Poor's credit rating scale.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As at 31 December 2016 and as at December 2015 the securities available for sale were not overdue and not impaired.

The movements in investment securities available for sale are as follows:

	Note	2016	2015
Carrying amount at 1 January		**1 841 161**	**681 433**
Gains less losses / (Losses less gains) arising during the year from revaluation of available for sale securities charged to other comprehensive income		27 561	50 909
Interest income accrued	17	108 728	56 199
Interest income received		(102 243)	(39 262)
Purchases		2 116 767	1 417 571
Disposal		(1 827 062)	(325 000)
Gains less losses / (Losses less gains) from operations with securities available for sale		9 328	(689)
Carrying amount at 31 December		**2 174 240**	**1 841 161**

To obtain intraday credit and overnight credit in correspondent account in the framework of the General credit agreement for providing Bank of Russia loans secured by pledge (blocking) of securities, OFZ bonds issued by the Ministry of Finance of the Russian Federation 2 152 369 items in amount of RUB 2 174 240 thousand are blocked in "Blocked by CBR" Bank's depo accounts in NKO ZAO NRD.

At 31 December 2016 fair value of the securities available for sale is RUB 2 174 240 thousand (31 December 2015: RUB 1 841 161 thousand). Refer to Note 28.

At 31 December 2016 and 31 December 2015 the debt securities are not collateralized.

Interest rate and maturity analysis of securities available for sale are disclosed in Note 24.

(In thousands of Russian roubles)

10. Fixed Assets

Below is represented rollforward of fixed assets:

	Note	Premises	Leasehold improvements	Office and computer equipment	Total
Cost or valuation at 31 December 2014		**989 182**	**824 631**	**254 846**	**2 068 659**
Accumulated depreciation		–	(654 532)	(175 732)	**(830 264)**
Carrying amount at 31 December 2014		**989 182**	**170 099**	**79 114**	**1 238 395**
Cost or valuation at 1 January 2015		**989 182**	**824 631**	**254 846**	**2 068 659**
Additions		–	–	96 906	**96 906**
Disposals		–	–	(14 662)	**(14 662)**
Charge to profit and loss		10 704	–	–	**10 704**
Revaluation		56 178	–	–	**56 178**
Depreciation write off on revalued premises		(19 784)	–	–	**(19 784)**
Cost or valuation at 31 December 2015		**1 036 280**	**824 631**	**337 090**	**2 198 001**
Accumulated depreciation at 1 January 2015		**–**	**(654 532)**	**(175 732)**	**(830 264)**
Depreciation charge	21	(19 784)	(15 465)	(27 081)	**(62 330)**
Depreciation on disposed assets		–	–	13 493	**13 493**
Depreciation write off on revalued premises		19 784	–	–	**19 784**
Accumulated depreciation at 31 December 2015		**–**	**(669 997)**	**(189 320)**	**(859 317)**
Carrying amount at 31 December 2015		**1 036 280**	**154 634**	**147 770**	**1 338 684**
Cost or valuation at 1 January 2016		**1 036 280**	**824 631**	**337 090**	**2 198 001**
Additions		–	–	18 290	**18 290**
Disposals		–	–	(22 468)	**(22 468)**
Charge to profit and loss		(1 856)	–	–	**(1 856)**
Revaluation		(9 738)	–	–	**(9 738)**
Depreciation write off on revalued premises		(20 726)	–	–	**(20 726)**
Cost or valuation at 31 December 2016		**1 003 960**	**824 631**	**332 912**	**2 161 503**
Accumulated depreciation at 1 January 2016		**–**	**(669 997)**	**(189 320)**	**(859 317)**
Depreciation charge	21	(20 726)	(15 465)	(49 919)	**(86 110)**
Depreciation on disposed assets		–	–	17 232	**17 232**
Depreciation write off on revalued premises		20 726	–	–	**20 726**
Accumulated depreciation at 31 December 2016		**–**	**(685 462)**	**(222 007)**	**(907 469)**
Carrying amount at 31 December 2016		**1 003 960**	**139 169**	**110 905**	**1 254 034**

(In thousands of Russian roubles)

10. Fixed Assets (continued)

Premises were independently valued at 31 December 2016 and 31 December 2015. The valuation was carried out by an independent firm of valuers CB Richard Ellis, LLC, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

Definition of the market value is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on sales or offered for sale of the comparable items that took place in the market.

During 2008 investment property in the amount of RUB 234 925 thousand was transferred to owner occupied premises due to intention of the Bank to occupy this property itself and termination of lease agreement. At 31 December 2008, the cumulative decrease of investment property as a result of a revaluation was recognised in profit and loss in amount of RUB 93 221 thousand. The subsequent increase/ decrease of the premises prior disclosed as investment property shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recorded in profit or loss.

At 31 December 2016, the carrying amount of premises would have been RUB 132 136 thousand (2015: RUB 136 461 thousand) had the assets been carried at cost less depreciation.

11. Other Assets

Other assets include:

	2016	2015
Other financial assets		
Accrued income receivable	24 718	71 062
Other	2 295	6 970
Total other financial assets	**27 013**	**78 032**
Other non-financial assets		
Prepayments for services	49 299	50 046
Taxes other than on income	1 359	5 353
Total other non-financial assets	**50 658**	**55 399**
Total other assets	**77 671**	**133 431**

Carrying value of other financial assets approximates fair value at 31 December 2016 and 31 December 2015.

12. Due to Other Banks

Due to other bansk amounts include:

	2016	2015
Term placements of other banks	2 158 629	729 811
Correspondent accounts	6 465 491	37 264
Total due to other banks	**8 624 120**	**767 075**

As at 31 December 2016, term borrowings from Credit Agricole CIB Group amounted to RUB 1 547 524 thousand or 71,7% from term placements of other banks (2015: RUB 629 220 thousand or 86,2%). The remaining amount of term deposits was attracted from Russian banks.

At 31 December 2016, correspondent accounts with Credit Agricole SA and Credit Agricole CIB amounted to RUB 80 627 thousand or 1,2% and RUB 6 384 847 thousand or 98,7% and from correspondent accounts (2015: correspondent accounts with Credit Agricole CIB Group and Credit Agricole SA amounted to RUB 129 thousand or 0,3% and to RUB 37 135 thousand or 99,7%, respectively).

The carrying value of each class of due to other banks approximates fair value at 31 December 2016 and 31 December 2015. At 31 December 2016, the estimated fair value of due to other banks was RUB 8 624 120 thousand (2015: RUB 767 075 thousand). Refer to Note 28.

(In thousands of Russian roubles)

13. Customer Accounts

Customer accounts include:

	2016	2015
Legal entities		
- Current/settlement accounts	9 722 824	33 226 958
- Term deposits	15 809 497	10 577 305
Individuals		
- Current/settlement accounts	236	283
Total customer accounts	**25 532 557**	**43 804 546**

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
	Amount	**%**	**Amount**	**%**
Mining	3 572	0%	24 615 655	56%
Trade	9 397 572	37%	8 453 512	19%
Manufacturing	7 933 298	31%	6 806 881	16%
Financial services and insurance	1 476 786	6%	1 349 726	3%
Telecommunication and transport	193 498	1%	716 424	2%
Construction	476 457	2%	541 310	1%
Energy and utilities	4 918 465	19%	65 795	0%
Other	1 132 909	4%	1 255 242	3%
Total customer accounts	**25 532 557**	**100%**	**43 804 546**	**100%**

At 31 December 2016, the Bank had 9 groups of related customers (2015: 11 groups of related customers) with balances above RUB 600 000 thousand (2015: above RUB 600 000 thousand). The aggregate balance of these customers was RUB 18 795 030 thousand or 73,6% (2015: RUB 36 716 964 thousand or 83,8%) of total customer accounts.

At 31 December 2016, customer accounts doesn’t include amounts, which are collateral for irrevocable obligations under letters of credit (2015: RUB 774 248 thousand).

At 31 December 2016, the estimated fair value of customer accounts was RUB 25 532 557 thousand (2015: RUB 43 804 546 thousand). Refer to Note 28. Interest rate and maturity analysis of customer accounts are disclosed in Note 24.

14. Other Liabilities

Other liabilities include:

	2016	2015
Other financial liabilities		
Commissions and fee payable	13 788	12 086
Deferred income on credit related commitments	3 051	4 043
Other	5 927	7 402
Total other financial liabilities	**22 766**	**23 531**
Other non-financial liabilities		
Accrued employee benefit costs	163 202	115 532
Accrued IT expenses	74 534	26 254
Taxes other than on income payable	13 389	20 530
Other accrued expenses related to fixed assets	16 309	15 809
Accrued audit and consulting expenses	5 423	11 165
Accrued rent expenses	5 377	8 752
Other	4 561	4 969
Total other non-financial liabilities	**282 795**	**203 011**
Total other liabilities	**305 561**	**226 542**

(In thousands of Russian roubles)

14. Other Liabilities (continued)

As at 31 December 2016 and 31 December 2015, the carrying value of other financial liabilities approximates their fair value. At 31 December 2016, the estimated fair value of other financial liabilities was RUB 22 766 thousand (2015: RUB 23 531 thousand). Refer to Note 28.

The information on related party balances is disclosed in Note 30.

15. Subordinated Debt

In November 2004, the Bank attracted a subordinated loan in the amount of USD 14 500 thousand with maturity in December 2012. In October 2007 the amount of loan was increased up to USD 103 500 thousand and this loan was extended till November 2017. In 2013 the loan was prolonged till November 2022. In February 2015 the Appendix to subordinated loan agreement was signed and changes the interest rate on this loan to 6M Libor + 3,9% since 1 December 2014. The loan was prolonged till November 2025.

The lender of this subordinated loan was Credit Agricole CIB Group. As at 31 December 2016, the carrying value of this loan was USD 103 977 thousand, the equivalent of RUB 6 306 911 thousand (2015: the carrying value of this loan was USD 103 920 thousand, the equivalent of RUB 7 573 901 thousand).The interest rate on this loan is 6M Libor + 3,9% (2015: 6M Libor + 3,9%). As at 31 December 2016, the interest rate was 5,19% (2015: 4,56%). The debt ranks after all other creditors in case of liquidation of the Bank.

At 31 December 2016, the estimated fair value of subordinated debt was RUB 6 306 951 thousand (2015: RUB 7 573 901 thousand). Refer to Note 28. Interest rate and maturity analysis of subordinated debt are disclosed in Note 24. The information on related party balances is disclosed in Note 30.

16. Share Capital

In thousands of RUB except for number of shares	**Number of outstanding shares**	**Nominal amount of ordinary shares**	**Inflation adjusted amount of ordinary shares**	**Inflation adjusted amount of share premium**	**Total**
At 1 January 2015	240 250	2 883 000	2 959 679	734 148	**3 693 827**
At 31 December 2015	240 250	2 883 000	2 959 679	734 148	**3 693 827**
At 31 December 2016	240 250	2 883 000	2 959 679	734 148	**3 693 827**

All shares were paid in cash, except for shares issued in May 2001 for the total nominal amount of RUB 220 000 thousand which were paid in accordance with the Russian statutory legislation by means of capitalisation of statutory revaluation of fixed assets. All ordinary shares have a nominal value of RUB 12 thousand per share (2015: RUB 12 thousand per share) and rank equally. Each share carries one vote. During 2016 and 2015 the Bank did not issue shares.

17. Interest Income and Expense

	2016	**2015**
Interest income		
Loans and advances to customers	1 725 875	2 581 259
Cash and cash equivalents		
- Placements with other banks	795 625	577 965
- Placements with the Central bank of Russia	129 976	116 984
- Correspondent accounts	58 099	34 358
Securities available for sale	108 728	56 199
Total interest income	**2 818 303**	**3 366 765**
Interest expense		
Current/settlement accounts	1 190 008	1 166 721
Term placements of other banks	47 584	478 354
Term deposits of legal entities	1 489 583	1 323 114
Total interest expense	**2 727 175**	**2 968 189**
Net interest income	**91 128**	**398 576**

(In thousands of Russian roubles)

18. Fee and Commission Income and Expense

Fee and commission income and expense include:

	2016	2015
Fee and commission income		
Foreign currency transactions	58 317	479 632
Currency control	129 662	132 168
Commission on settlement transactions	74 526	74 229
Commission on trade finance operations	41 977	77 312
Guarantees issued	35 434	62 881
Cash transactions	1 491	3 003
Other	24 381	18 322
Total fee and commission income	**365 788**	**847 547**
Fee and commission expense		
Guarantee received	86 663	129 715
Commission on settlement and cash transactions	10 922	11 275
Brokerage services	12 275	8 820
Other	7 369	6 640
Total fee and commission expense	**117 229**	**156 450**
Net fee and commission income	**248 559**	**691 097**

19. Foreign Exchange Translation (Losses Less Gains) / Gains Less Losses

	2016	2015
Translation differences, net	(1 249 378)	2 273 032
Fair value adjustment on derivative deals	369 847	38 296
Total foreign exchange translation (losses less gains) / gains less losses	**(879 531)**	**2 311 328**

20. Gains Less Losses / (Losses Less Gains) from Operations with Interest Rate Derivatives

The Bank does not have active trading position with interest rate derivatives. At 31 December 2016 the Bank had seven interest rate swaps and two cross currency interest rate swaps (2015: eight interest rate swaps and two cross currency interest rate swaps). Interest rate swaps were booked in reference to purchased bonds and loan issued.

21. Administrative and Other Operating Expenses

	Note	2016	2015
Staff costs		686 522	635 409
Services provided by the participants of Credit Agricole CIB Group	30	169 500	123 925
IT expenses		87 544	68 961
Depreciation of fixed assets	10	86 110	62 330
Taxes other than on income		51 412	44 510
Other expenses related to fixed assets		43 061	37 488
Operating lease expense for premises and land		35 848	32 197
Travel and entertainment expenses		31 071	26 823
Telecommunication expenses		19 703	24 802
Professional services		26 409	19 627
Office stationary and typographic services		8 371	9 762
Other		42 346	24 080
Total administrative and other operating expenses		**1 287 897**	**1 109 914**

Included in staff costs are contributions to the social security fund, pension fund and obligatory medical insurance in the amount of RUB 94 365 thousand for 2016 (2015: RUB 82 918 thousand).

(In thousands of Russian roubles)

22. Income Taxes

Income tax expense comprises the following:

	2016	2015
Current tax	130 709	263 437
Deferred tax	(11 060)	(11 836)
Income tax expense for the year	**119 649**	**251 511**

At 31 December 2016 the income tax rate applicable to the majority of the Bank's income is 20% (2015: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	2016	2015
IFRS profit before tax	**365 739**	**1 132 877**
Theoretical tax charge at statutory rate (20%)	**73 148**	**226 575**
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	51 937	27 746
- Income on government securities taxed at different rates	(5 436)	(2 810)
Income tax expense for the year	**119 649**	**251 511**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%, except for income on state securities, which is taxed at 15% (2015: 15%).

	1 January 2016	Credited/ (charged) to profit or loss	(Charged)/ credited directly to equity	31 December 2016
Tax effect of deductible/(taxable) temporary differences				
Fixed assets	(229 887)	(357)	1 948	(228 296)
Revaluation of derivatives	3 715	(1 793)	–	1 922
Revaluation of securities available for sale	(972)	–	(5 512)	(6 484)
Accrued staff costs	20 297	7 229	–	27 526
Other	8 678	5 981	–	14 659
Net deferred tax liability	**(198 169)**	**11 060**	**(3 564)**	**(190 673)**

	1 January 2015	Credited/ (charged) to profit or loss	(Charged)/ credited directly to equity	31 December 2015
Tax effect of deductible/(taxable) temporary differences				
Fixed assets	(230 881)	12 230	(11 236)	(229 887)
Revaluation of derivatives	(9 786)	13 501	–	3 715
Revaluation of securities available for sale	9 210	–	(10 182)	(972)
Accrued staff costs	35 163	(14 866)	–	20 297
Other	7 707	971	–	8 678
Net deferred tax liability	**(188 587)**	**11 836**	**(21 418)**	**(198 169)**

(In thousands of Russian roubles)

23. Dividends

	2015		2015	
	Ordinary	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January				
Dividends declared during the year	906 373	–	359 947	–
Dividends paid during the year	(906 373)	–	(359 947)	–
Dividends payable at 31 December	**–**	**–**	**–**	**–**
Dividends per share declared during the year	**3,77**	**–**	**1,5**	**–**

All dividends are declared and paid in Russian roubles.

24. Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. Risk management policy of the Bank is monitored by the Risk Management Department based on the practice of Credit Agricole CIB Group in respect of risk management.

Credit risk

Credit risk is the risk that the Bank losses due to non-fulfillment, untimely or incomplete fulfillment by the debtor of financial obligations to the Bank in accordance with the terms of the contract.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For credit related commitments, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26.

Credit operations are governed by a set of policies and procedures to ensure that all aspects of credit risk are adequately covered. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Bank derives the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default").

The Bank determines the level of credit risk by allocating limits to individual borrowers or groups of borrowers. The Bank uses the internal rating system of Credit Agricole CIB Group as follows:

Investment grade

- "A+" – exceptional quality of the borrower. Superior asset quality. Debtors have exceptional debt capacity and coverage.
- "A"– excellent quality of the borrower. Superior asset quality. Debtors have excellent debt capacity and coverage.
- "B+" – very good quality of the borrower. Very good asset quality and liquidity. Debtors have strong debt capacity, very reputed management.
- "B" – good quality of the borrower. Good asset quality and liquidity. Large debt capacity. Very reputable management. The debtor shows no weaknesses.
- "C+" – fairly good quality of the borrower. Good asset quality and liquidity. Debtors have very good management and moderate indebtedness. The debtor may show one average or weak external or internal factor which does not impair it.
- "C" – acceptable quality of the borrower. Satisfactory asset quality and liquidity. Debtors have moderate indebtedness, good management, average size and position in the industry, not more than two weak factors and which are well compensated by strong sides.
- "C-" – medium quality of the borrower. Satisfactory asset quality and liquidity. Debtors have moderate indebtedness and good management, average size and position in the industry. Contrary to "C", it may have also one weak external or internal factor that makes higher the risk of being downgraded to speculative.

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Credit risk (continued)

Non-investment grade

- "D+" – reasonable quality of the borrower. Acceptable asset quality. Debtors have modest debt capacity or highly leveraged and good management. Two weak external or internal factors do not make it eligible to an investment-grade status.
- "D" – mediocre quality of the borrower. Acceptable asset quality, though illiquid. Debtors are highly or fully leveraged. Debtor is not strong enough to sustain major setbacks.
- "D-" – very mediocre quality of the borrower. Concentrated and rather illiquid assets. Debtors are highly or fully leveraged. Debtors are undersized comparing to competitors and not strong enough to sustain major setbacks.
- "E+" – weak watch quality of the borrower. Debtors are highly leveraged. Weak management do not make it an acceptable debtor without specific external support.
- "E" – poor quality of the borrower, debtors are in the watchlist. Illiquid assets. Debtors are fully leveraged but no default reported.
- "E-" – poor quality of the borrower, debtors are in the watchlist. Illiquid assets. Debtors are fully leveraged. Delay in payments incurred or loan covenants were breached.
- "F/Z" – default situation because of an overdue (3 month) or the bank's doubt on the debtor's capacity to pay. "F" grade indicates transfer of borrower to default category. "Z" grade indicates that litigation against borrower was brought to court.

For internal assessment of credit risk, the Bank applies procedures and methodology of Credit Agricole CIB Group, which includes financial analysis, industry analysis, market analysis, management quality analysis, country analysis, etc. Based on the assessment, a rating is assigned to each client. The Bank monitors credit risks on a daily basis and each borrower is reassessed regularly.

For the management of credit risk concentration by industrial and economic sector and by territory, the Bank uses regulations of Credit Agricole Group. Loans issued by the Bank are normally secured by guarantees received from Credit Agricole Group.

Credit risk exposure (counterparty risk) in respect of derivative financial instruments is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making off-balance sheet items as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk

Market risk is the risk that the Bank's financial losses as a result of changes in market value of financial instruments and foreign exchange rates. Limits are set by the Credit Agricole Group in relation to the level of risk taken and compliance with them is monitored on a daily basis. This approach is a standard practice of risk management among market participants, however, it does not prevent losses in case of significant changes in the market.

The Bank applies the "value at risk" ("VAR") method separately for currency and interest rate risks in estimating the market risk of the positions held and the maximum losses expected, based on a number of assumptions concerning various changes in the market conditions. Credit Agricole CIB Group's Global Market Risk Management Department (DRM) sets the limits for acceptable risk for the Bank which are monitored on a daily basis.

The daily market VAR is a 99%-reliable estimate of the potential loss, provided that the current positions do not change over the following business day. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

Since VAR constitutes an integral part of the Bank's market risk controls, VAR limits are established for all trading and portfolio operations. The management assesses the actual risk exposure against the limits on a daily basis. However daily monitoring of VAR limits does not protect the Bank from losses arising from significant market movements. At the local level Capital Markets department of the Bank monitors market risk by determination that VAR and sensitivities are in the limits defined by Credit Agricole CIB Group.

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Market risk (continued)

Currency risk

In respect of currency risk, the Bank sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2016					At 31 December 2015				
	Monetary financial assets	Monetary financial liabilities	Derivatives	SPOT	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	SPOT	Net position
Russian roubles	23 294 605	23 033 919	4 670 890	(377 271)	4 554 306	27 252 093	27 906 260	6 435 427	(566 323)	5 214 937
US dollars	8 962 231	9 061 826	(69 629)	171 285	2 061	15 621 758	15 708 620	116 460	(29 791)	(193)
Euros	12 610 978	8 407 991	(4 427 308)	212 163	(12 158)	14 223 090	8 433 332	(6 478 193)	683 643	(4 792)
Other	391 177	(21 821)	(183 561)	(9 541)	219 896	300 171	113 438	(92 264)	(88 824)	5 645
Total	**45 258 991**	**40 481 915**	**(9 608)**	**(3 364)**	**4 764 104**	**57 397 112**	**52 161 650**	**(18 570)**	**(1 295)**	**5 215 597**

Derivatives and spot deals in each column represent the gross settlements at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty.

The amounts by currency of derivatives are presented gross as stated in Note 27. The net total represents fair value of the currency derivatives.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant. The Bank performs currency risk sensitivity analysis on the basis of its forecast of possible changes in exchange rates:

	At 31 December 2016	At 31 December 2015
	Impact on profit or loss	Impact on profit or loss
US dollar strengthening by 20% (2015: 20%)	412	(39)
US dollar weakening by 20% (2015: 20%)	(412)	39
Euro strengthening by 20% (2015: 20%)	(2 432)	(958)
Euro weakening by 20% (2015: 20%)	2 432	958

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

Interest rate risk

The Bank assumes interest rate risk, representing the risk of financial losses (damages) as a result of adverse changes in interest rates on the Bank's operations caused, in particular, the mismatch of maturity of assets and liabilities as well as the types of interest rates on active and passive transactions and financial instruments. Monitoring of positions on is performed on a daily basis by setting the limits. The table below summarises the interest rate risk of the Bank. It also shows the total amounts of financial assets and liabilities at carrying amount by dates of revision of interest rates in accordance with contracts or maturity periods, whichever of these dates is earlier.

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Interest rate risk (continued)

The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2016					
Total financial assets	41 629 415	8 546 461	1 215 583	6 891 555	**58 283 014**
Total financial liabilities	46 904 479	–	6 612 059	2 372	**53 518 910**
Net interest sensitivity gap at 31 December 2016	**(5 275 064)**	**8 546 461**	**(5 396 476)**	**6 889 183**	**4 764 104**
31 December 2015					
Total financial assets	72 348 280	4 163 777	1 069 456	1 115 761	**78 697 274**
Total financial liabilities	65 858 318	7 623 359	–	–	**73 481 677**
Net interest sensitivity gap at 31 December 2015	**6 489 962**	**(3 459 582)**	**1 069 456**	**1 115 761**	**5 215 597**

The table below summarises the Bank's exposure to interest risk at the end of the each reporting period:

	At 31 December 2016			At 31 December 2015		
	Net position	Reasonable shift	Impact on statement of comprehensive income	Net position	Reasonable shift	Impact on statement of comprehensive income
Balance sheet						
On demand and less than 1 month	(5 275 065)	4,0%	(193 419)	6 489 962	4,0%	237 965
From 1 to 6 months	8 546 461	4,0%	256 394	(3 459 582)	4,0%	(103 787)
From 6 to 12 months	(5 396 476)	4,0%	(53 965)	1 069 465	4,0%	10 695
More than 1 year	6 889 183	4,0%	22 964	1 115 761	4,0%	3 719
Total	**4 764 103**	**–**	**31 974**	**5 215 597**	**–**	**148 592**

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

	2016			2015		
In % p.a.	**RUB**	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Assets						
Cash and cash equivalents	9,88	0,13	–	9,14	0,31	1,50
Due from other banks	10,42	0,56	0,05	14,91	–	–
Loans and advances to customers	11,62	3,85	2,24	12,43	3,46	2,33
Securities available for sale	9,06	–	–	7,27	–	–
Liabilities						
Due to other banks	9,66	0,66	0,05	5,01	0,33	–
Customer accounts						
- current and settlement accounts	7,59	0,01	–	5,20	0,00	0,16
- term deposits	8,72	0,01	–	7,03	0,01	0,01
Subordinated debt	–	4,70	–	–	4,56	–

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

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is a risk of not getting in a defined time the resources necessary for the implementation of the Bank liabilities is the payment deadline. The liquidity risk may be viewed as one of the following occurrence:

- The involvement of the expensive resources necessary for the Bank activity;
- The reducing of the volume of active operations, in order to bring them in line with the actually available funding;
- A combination of above mentioned options.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank was in compliance with normative value of liquidity ratios at 31 December 2016 and 31 December 2015.

The Treasury Department of the Bank receives information about the liquidity profile of the financial assets and liabilities and then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities and deposits with banks, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Credit Agricole CIB Group's Risk Management Department.

The table below shows liabilities at 31 December 2016 and at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be paid on gross settled currency derivatives and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the each reporting period.

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	8 291 323	–	336 101	51	–	**8 627 475**
Customer accounts – individuals	236	–	–	–	–	**236**
Customer accounts – corporate entities	25 572 277	17	–	–	–	**25 572 294**
Gross settled derivatives						
- Payables	16 634 929	23 607 478	56 436 480	25 985 590	–	**122 664 477**
- Receivables	(16 637 115)	(23 606 610)	(56 435 491)	(25 984 468)	–	**(122 663 684)**
Other financial liabilities	20 335	586	1 262	1 165	–	**23 348**
Subordinated debt	–	174 882	148 339	1 177 843	7 430 841	**8 931 905**
Total future payments on financial liabilities	**33 881 985**	**176 353**	**486 691**	**1 180 181**	**7 430 841**	**43 156 051**
Off-balance sheet and contingent liabilities						
Credit related commitments	203 197	2 877 156	486 531	–	–	**3 566 883**
Total potential future payments for financial obligations	**203 197**	**2 877 156**	**486 531**	**–**	**–**	**3 566 883**

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Liquidity risk (continued)

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

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	366 382	–	–	403 339	–	**769 721**
Customer accounts – individuals	283	–	–	–	–	**283**
Customer accounts – corporate entities	40 226 103	80 833	–	4 076 906	–	**44 383 842**
Gross settled derivatives						
- Payables	26 613 847	18 530 854	7 194 005	72 033 130	–	**124 371 836**
- Receivables	(26 578 595)	(18 578 370)	(7 136 938)	(72 031 292)	–	**(124 325195)**
Other financial liabilities	19 515	2 749	551	717	–	**23 532**
Subordinated debt	–	201 215	172 549	1 373 832	9 231 264	**10 978 860**
Total future payments on financial liabilities	**40 647 535**	**237 281**	**230 167**	**5 856 632**	**9 231 264**	**56 202 879**
Off-balance sheet and contingent liabilities						
Credit related commitments	19 983 875	4 250 565	3 169 674	–	–	**27 404 114**
Total potential future payments for financial obligations	**19 983 875**	**4 250 565**	**3 169 674**	**–**	**–**	**27 404 114**

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

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Liquidity risk (continued)

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

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 2 years**	**From 2 to 5 years**	**More than 5 years**	**Total**
Assets							
Cash and cash equivalents	14 769 658	–	–	–	–	–	**14 769 658**
Mandatory cash balances with the Central Bank of the Russian Federation	374 196	–	–	–	–	–	**374 196**
Due from other banks	–	–	–	–	–	–	**–**
Loans and advances to customers	15 014 495	3 881 739	584 807	3 258 626	5 175 333	–	**27 915 000**
Securities available for sale	–	2 174 240	–	–	–	–	**2 174 240**
Derivative financial instruments	310 715	499 388	7 724 430	4 482 095	6 279	–	**13 022 907**
Other financial assets	26 458	469	81	5	–	–	**27 013**
Total financial assets	**30 495 522**	**6 555 836**	**8 309 318**	**7 740 726**	**5 181 612**	**–**	**58 283 014**
Liabilities							
Due to other banks	8 289 803	–	334 318	–	–	–	**8 624 121**
Customer accounts	25 532 557	–	–	–	–	–	**25 532 557**
Derivative financial instruments	321 022	495 859	7 724 887	4 484 467	6 279	–	**13 032 514**
Other financial liabilities	19 754	586	1 262	548	617	–	**22 767**
Subordinated debt	–	–	–	–	–	6 306 951	**6 306 951**
Total financial liabilities	**34 163 136**	**496 445**	**8 060 467**	**4 485 015**	**6 896**	**6 306 951**	**53 518 910**
Net liquidity gap	**(3 667 614)**	**6 059 391**	**248 851**	**3 255 711**	**5 174 716**	**(6 306 951)**	**4 764 104**
Cumulative liquidity gap	**(3 667 614)**	**2 391 777**	**2 640 628**	**5 896 339**	**11 071 055**	**4 764 104**	

(In thousands of Russian roubles)

24. Financial Risk Management (continued)

Liquidity risk (continued)

As at 31 December 2016 and 31 December 2015 securities available for sale were represented by securities that are included in Lombard list of CBR. Refer to Note 9.

The liquidity position of the Bank at 31 December 2015 is set out below:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	36 792 226	–	–	–	–	–	**36 792 226**
Mandatory cash balances with the Central Bank of the Russian Federation	377 746	–	–	–	–	–	**377 746**
Due from other banks	–	426 334	403 055	–	–	–	**829 389**
Loans and advances to customers	8 001 916	2 251 071	707 653	1 286 002	4 583 422	654 602	**17 484 666**
Securities available for sale	1 444 817	396 344	–	–	–	–	**1 841 161**
Derivative financial instruments	1 981 539	955 876	194 257	11 135 410	7 026 972	–	**21 294 054**
Other financial assets	77 613	210	209	–	–	–	**78 032**
Total financial assets	**48 675 857**	**4 029 835**	**1 305 174**	**12 421 412**	**11 610 394**	**654 602**	**78 697 274**
Liabilities							
Due to other banks	365 887	–	–	401 188	–	–	**767 075**
Customer accounts	43 724 487	80 059	–	–	–	–	**43 804 546**
Derivative financial instruments	2 038 290	903 635	207 064	11 135 622	7 028 013	–	**21 312 624**
Other financial liabilities	19 514	2 749	551	83	634	–	**23 531**
Subordinated debt	–	30 542	–	–	–	7 543 359	**7 573 901**
Total financial liabilities	**46 148 178**	**1 016 985**	**207 615**	**11 536 893**	**7 028 647**	**7 573 359**	**73 481 677**
Net liquidity gap	**2 527 679**	**3 012 850**	**1 097 559**	**884 519**	**4 581 747**	**(6 888 757)**	**5 215 597**
Cumulative liquidity gap	**2 527 679**	**5 540 529**	**6 638 088**	**7 522 607**	**12 104 354**	**5 215 597**	**–**

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

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

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

(In thousands of Russian roubles)

25. Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern. The amount of regulatory capital that the Bank managed as of 31 December 2016 was RUB 12 107 643 thousand (2015: RUB 13 988 828 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily with reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets N1 ("statutory capital ratio") above a prescribed minimum level. The level of capital adequacy ratio as at 31 December 2016 and 2015 are presented in the table below:

	2016	**2015**
Capital adequacy ratio (N1)	42,8	39,52
Minimum acceptable level (N1)	min 10,0%	min 10,0%

Regulatory capital is based on the Bank's reports prepared under the requirements of the Russian legislation and comprises:

	2016	**2015**
Base capital	4 362 497	4 379 801
Additional capital	7 745 146	9 609 027
Total regulatory capital	**12 107 643**	**13 988 828**

26. Contingencies and Commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies

Russian tax legislation bears different interpretations and is subject to unanticipated changes which could possibly influence prior tax periods. The current trends in Russia evidence that tax administration is becoming progressively tight which could result in taking up by them more rigid position in tax legislation interpretation during tax audit in comparison of the one taken before.

The Russian tax legislation effective since 1 January 2015 was extended by inclusion of the "tax resident" conceptions applicable to foreign legal entities and the "beneficial owner", and deployment of the taxation rules regarding retained earnings of foreign controlled companies in Russian Federation. Enactment of this law represents increase of administrative and tax burdens for Russian taxpayers, with foreign subsidiaries and/or paying-out revenues from Russian Federation based sources in favour of foreign companies. Mentioned changes do not impact Bank's financial statements as at 31 December 2016.

The Russian transfer pricing legislation effective since 1 January 2012 aligned to a large extent with the international principles developed by the Organization for Economic Cooperation and Development. This legislation allowes tax authorities to perform transfer pricing adjustments and accrue additional tax liabilities in respect of controlled transactions (transactions with related parties and specific types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. The management of the Bank implemented internal control procedures to comply with the transfer pricing legislation requirements. In 2016 the Bank has determined tax liabilities resulting from the controlled transactions based on their actual prices related to transfer pricing regulations.

As at 31 December 2016 the management of the Bank considers Bank's position in respect of tax legislation to be fully in compliance and supportive with interpretation of the law. The management of the Bank believes that all relevant taxes are accrued and paid.

(In thousands of Russian roubles)

26. Contingencies and Commitments (continued)

Capital expenditure commitments

At 31 December 2016 and 31 December 2015 the Bank does not have contractual capital commitments.

Operating lease commitments

Operating lease commitments include commitments arising from operating lease of a building in Saint Petersburg (contract matures in 2041) and operating lease of land in Moscow (contract matures in 2046). Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Operating lease commitment		
Not later than 1 year	28 457	30 449
Later than 1 year and not later than 5 years	127 000	144 656
Later than 5 years	947 090	1 805 562
Operating lease commitments related to building	**1 102 547**	**1 980 667**
Not later than 1 year	15 657	14 434
Later than 1 year and not later than 5 years	77 261	71 141
Later than 5 years	1 886 888	1 908 666
Operating lease commitments related to land	**1 979 806**	**1 994 241**
Total operating lease commitments	**3 082 353**	**3 974 908**

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

	Note	2016	2015
Commitments to extend credit that are irrevocable or are revocable only in response to a material adverse change		–	19 829 741
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change		1 222 867	1 197 183
Export letters of credit		–	602 711
Import letters of credit	13	406 274	4 044 409
Financial guarantees issued		1 937 743	1 730 070
Total credit related commitments		**3 566 884**	**27 404 114**

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of guarantees issued was RUB 1 937 743 thousand at 31 December 2016 (2015: RUB 1 730 070 thousand). Fair value of commitments to extend credit approximates equals their carrying amount.

(In thousands of Russian roubles)

26. Contingencies and Commitments (continued)

Credit related commitments (continued)

Credit related commitments are denominated in currencies as follows:

	2016	2015
Russian roubles	1 148 759	779 504
US dollars	263 990	15 320 681
Euro	2 154 135	11 303 929
Total	**3 566 884**	**27 404 114**

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Bank uses historical data and have automatic systems of internal control that allow us to monitor timeliness and completeness of execution of such payments, corresponding to the nature and scale of issued guarantees. Claims must be made before the contract matures and most claims are settled within short term. This allows the Bank to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Bank manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Bank has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

	2016	2015
Custom and Tax guarantees	1 525 309	1 323 185
First Demand Performance Guarantees	1 238 222	2 185 697
Total guaranteed amounts	**2 763 531**	**3 508 882**

The Bank did not create provision for performance guarantees at 31 December 2016 and 31 December 2015.

27. Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(In thousands of Russian roubles)

27. Derivative Financial Instruments (continued)

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

		2016		**2015**	
	Note	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the reporting date					
- USD receivable on settlement (+)		12 870 970	1 312 441	22 133 365	6 472 662
- USD payable on settlement (-)		(1 384 242)	(12 868 797)	(136 607)	(28 352 829)
- Euros receivable on settlement (+)		23 522	12 017 907	9 247 069	208 602
- Euros payable on settlement (-)		(16 442 386)	(23 522)	(603 128)	(15 329 484)
- RUB receivable on settlement (+)		17 902 759	6 020 001	653 145	27 766 826
- RUB payable on settlement (-)		(6 020 001)	(13 232 510)	(21 363 986)	(629 452)
- Other receivable on settlement (+)		–	1 298 545	311 653	–
- Other payable on settlement (-)		(1 481 465)	–	(92 264)	(311 653)
Net fair value of foreign exchange forwards		**5 469 157**	**(5 475 935)**	**10 149 247**	**(10 175 328)**
Interest rate swaps: fair values, at the reporting date					
Pay fixed in RUB, receive floating in RUB		–	–	8 894	–
Pay fixed in EUR, receive floating in EUR		–	(2 829)	–	(131)
Pay fixed in RUB, receive floating in USD		–	(6 279)	–	–
Pay fixed in USD, receive floating in RUB		6 279	–	–	–
Pay fixed in EUR, receive floating in EUR		–	–	503	(1,755)
Net fair value of interest rate swaps		**6 279**	**(9 108)**	**9 397**	**(1 886)**
Cross currency interest rate swaps: fair values, at the reporting date					
- Receive fixed in RUB		–	7 585 877	–	7 456 083
- Pay fixed in RUB		(7 585 877)	–	(7 456 083)	–
- Receive fixed in USD		–	–	–	–
- Receive floating in USD		15 133 348	–	18 591 493	–
- Pay floating in USD		–	(15 133 348)	–	(18 591 493)
Net fair value of cross currency interest rate swaps		**7 547 471**	**(7 547 471)**	**11 135 410**	**(11 135 410)**
Net fair value of Derivatives Financial Instruments	28	**13 022 907**	**(13 032 514)**	**21 294 054**	**(21 312 624)**

At 31 December 2016 fair value of derivative financial assets and liabilities was RUB 13 022 907 thousand and RUB 13 032 514 thousand, respectively (2015: 21 294 054 thousand and RUB 21 312 624 thousand, respectively). Refer to Note 28.

(In thousands of Russian roubles)

28. Fair Value of Financial Instruments and Non-Financial Assets

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

(a) Recurring fair value measurements

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

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets								
Securities available for sale								
Federal loan bonds (OFZ bonds)	2 174 240	–	–	**2 174 240**	1 444 817	–	–	**1 444 817**
Municipal bonds	–	–	–	**–**	396 344	–	–	**396 344**
Derivative financial instruments								
Foreign exchange forwards and swaps		5 469 157	–	**5 469 157**	–	10 149 247	–	**10 149 247**
Interest rate swaps	–	6 279	–	**6 279**	–	9 397	–	**9 397**
Cross currency interest rate swaps	–	7 547 471	–	**7 547 471**	–	11 135 410	–	**11 135 410**
Non-financial assets								
Premises	–	–	1 003 960	**1 003 960**	–	–	1 036 280	**1 036 280**
Total assets recurring fair value measurements	**2 174 240**	**13 022 907**	**1 003 960**	**16 201 107**	**1 841 161**	**21 294 054**	**1 036 280**	**24 171 495**

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value								
Financial liabilities								
Derivative financial instruments								
Foreign exchange forwards and swaps	–	5 475 935	–	**5 475 935**	–	10 175 328	–	**10 175 328**
Interest rate swaps	–	9 108	–	**9 108**	–	1 886	–	**1 886**
Cross currency interest rate swaps	–	7 547 471	–	**7 547 471**	–	11 135 410	–	**11 135 410**
Total liabilities recurring fair value measurements	**–**	**13 032 514**	**–**	**13 032 514**	**–**	**21 312 624**	**–**	**21 312 624**

(In thousands of Russian roubles)

28. Fair Value of Financial Instruments and Non-Financial Assets (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016 and 31 December 2015:

	Fair value			
	31 December 2016	**31 December 2015**	**Valuation technique**	**Inputs used**
Assets at fair value financial assets				
Derivative financial instruments				
Foreign exchange forwards and swaps	5 469 157	10 149 247	Discounted cash flows	Basis curves
Interest rate swaps	6 279	9 397	Discounted cash flows	LIBOR curves
Cross currency interest rate swaps	7 547 471	11 135 410	Discounted cash flows	BOR curves + Basis curves
Total recurring fair value measurements at level 2	**13 022 907**	**21 294 054**		
Liabilities carried at fair value				
Financial liabilities				
Derivative financial instruments				
Foreign exchange forwards and swaps	5 475 935	10 175 328	Discounted cash flows	Basis curves
Interest rate swaps	9 108	1 886	Discounted cash flows	LIBOR curves
Cross currency interest rate swaps	7 547 471	11 135 410	Discounted cash flows	BOR curves + Basis curves
Total recurring fair value measurements at level 2	**13 032 514**	**21 312 624**		

The valuation technique employed by the Bank for derivative deals assumes applying discounted cash flows. Discounting of future cash flow at present value is built using independent mid quote prices (broker sources such as ICAP). BOR (interbank offered rate) curves are mainly built using BOR fixing rate and/or Money Market rates for short end, Futures prices for mid-term end, BOR swap rates for long tenor. BASIS curves which are used to discount cash flow of cross currency products are built with a dedicated pricer using independent market data such as reference curve (e.g. LIBOR USD 3M), Overnight Index Rate curve, Spot Rate, Pips.

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2016 (2015: none).

Premises of the Bank were independently revalued at 31 December 2016. Definition of the market value is based on the sales comparison approach. Using this approach, the subject property is compared to those deemed similar or comparable. Taking into account certain adjustments, which reflect specific advantages and disadvantages over comparable properties, the market value of the subject property can be determined.

To reflect the differences between the subject property and each comparable property, adjustments have been made to the comparable sales data. The following elements of comparison identify specific characteristics of properties considered and the associated price variations:

- -15% – adjustment to the asking price allowing for negotiations;
- 0% to 5% – adjustment for differences in location;
- -8% to -3% – adjustment for the size of the premises;
- -5% to 0% – adjustment for age/date of refurbishment;
- 3% – adjustment for internal lay-out;
- 5% – 10% – adjustments for the parking ratio.

(In thousands of Russian roubles)

28. Fair Value of Financial Instruments and Non-Financial Assets (continued)

(a) Recurring fair value measurements (continued)

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 (2015: none).

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2016 and 31 December 2015 is as follows:

	2016	2015
	Premises	Premises
Fair value at 1 January	**1 036 280**	**989 182**
Gains or losses recognised in profit or loss for the year	(22 582)	(9 080)
Gains or losses recognised in other comprehensive income	(9 738)	56 178
Fair value at 31 December	**1 003 960**	**1 036 280**

The premises of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Bank's management uses judgment for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

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

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

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial assets								
Cash and cash equivalents	**46 334**	**14 723 324**	**–**	**14 769 658**	**65 989**	**36 726 237**	**–**	**36 792 226**
- Cash on hand	46 334	–	–	46 334	65 989	–	–	65 989
- Cash balances with the CBR	–	414 172	–	414 172	–	5 360 029	–	5 360 029
- Overnight placements with CBR	–	1 900 934	–	1 900 934	–	8 002 191	–	8 002 191
- Correspondent accounts and overnight placements	–	12 021 944	–	12 021 944	–	22 059 607	–	22 059 607
- Settlement accounts with trading systems	–	16 853	–	16 853	–	741 296	–	741 296
- Placements with other banks with original maturities of less than three months	–	769	–	769	–	563 114	–	563 114
Mandatory cash balances with the Central Bank of the Russian Federation	**–**	**374 196**	**–**	**374 196**	**–**	**377 746**	**–**	**377 746**
Due from other banks	**–**	**–**	**–**	**–**	**–**	**829 389**	**–**	**829 389**
- Short-term placements with other banks with original maturities of more than three months	–	–	–	–	–	829 389	–	829 389
Loans and advances to customers	**–**	**–**	**27 915 000**	**27 915 000**	**–**	**–**	**17 484 666**	**17 484 666**
- Corporate loans	–	–	23 420 117	23 420 117	–	–	15 344 313	15 344 313
- Structured finance loans	–	–	4 494 883	4 494 883	–	–	2 140 353	2 140 353
Other financial assets	**–**	**–**	**27 013**	**27 013**	**–**	**–**	**78 032**	**78 032**
- Accrued income receivable	–	–	24 718	24 718	–	–	71 062	71 062
- Unsettled deals	–	–			–	–	–	–
- Other	–	–	2 295	2 295	–	–	6 970	6 970
Total	**46 334**	**15 097 520**	**27 942 013**	**43 085 867**	**65 989**	**37 933 372**	**17 562 698**	**55 562 059**

(In thousands of Russian roubles)

28. Fair Value of Financial Instruments and Non-Financial Assets (continued)

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

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

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial liabilities								
Due to other banks	**–**	**–**	**8 624 120**	**8 624 120**	**–**	**–**	**767 075**	**767 075**
- Term placements of other banks	–	–	2 158 629	2 158 629	–	–	729 811	729 811
- Correspondent accounts	–	–	6 465 491	6 465 491	–	–	37 264	37 264
Customer accounts	**–**	**–**	**25 532 557**	**25 532 557**	**–**	**–**	**43 804 546**	**43 804 546**
- Current/settlement Accounts of legal entities	–	–	9 722 824	9 722 824	–	–	33 226 958	33 226 958
- Term deposits of legal entities	–	–	15 809 498	15 809 498	–	–	10 577 305	10 577 305
- Current/settlement Accounts of Individuals	–	–	236	236	–	–	283	283
Other financial liabilities	**–**	**–**	**22 766**	**22 766**	**–**	**–**	**23 531**	**23 531**
- Accrued expenses	–	–	13 788	13 788	–	–	12 086	12 086
- Deferred income on credit related commitments	–	–	3 051	3 051	–	–	4 043	4 043
- Other	–	–	5 927	5 927	–	–	7 402	7 402
Subordinated debt	**–**	**6 306 951**	**–**	**6 306 951**	**–**	**7 573 901**	**–**	**7 573 901**
Total	**–**	**6 306 951**	**34 179 443**	**40 486 394**	**–**	**7 573 901**	**44 595 152**	**52 169 053**

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

For assets, the Bank used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Bank's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Bank.

The fair value of these liabilities reflects these credit enhancements.

(In thousands of Russian roubles)

29. Presentation of Financial Instruments by Measurement Categories

Under IAS 39 *Financial Instruments: Recognition and Measurement*, the Bank assigns the following categories to its financial assets: (a) loans and receivables; (b) financial assets at fair value through profit and loss account (c) Financial assets available for sale. The following table represents reconciliation of categories of financial assets with the above measurement categories as at 31 December 2016:

	Loans and receivables	Financial assets at fair value through profit and loss	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	**14 769 658**	**–**	**–**	**14 769 658**
- Cash on hand	46 334	–	–	**46 334**
- Cash balances with the CBR	414 172	–	–	**414 172**
- Overnight placements with the CBR	1 900 934	–	–	**1 900 934**
- Correspondent accounts and overnight placements	12 021 944	–	–	**12 021 944**
- Settlement accounts with trading systems	16 853	–	–	**16 853**
- Placements with other banks with original maturities of less than three months	369 421	–	–	**369 421**
Mandatory cash balances with the Central Bank of the Russian Federation	**374 196**	**–**	**–**	**374 196**
Due from other banks	**–**	**–**	**–**	**–**
- Placements with other banks with original maturities of more than three month	–	–	–	**–**
Loans and advances to customers	**27 915 000**	**–**	**–**	**27 915 000**
- Corporate loans	23 420 117	–	–	**23 420 117**
- Structured finance loans	4 494 883	–	–	**4 494 883**
Securities available for sale	**–**	**–**	**2 174 240**	**2 174 240**
Derivative financial instruments	**–**	**13 022 907**	**–**	**13 022 907**
Other financial assets	**27 013**	**–**	**–**	**27 013**
- Accrued income receivable	24 718	–	–	**24 718**
- Other	2 295	–	–	**2 295**
Total financial assets	**43 085 867**	**13 022 907**	**2 174 240**	**58 283 014**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2015:

	Loans and receivables	Financial assets at fair value through profit and loss	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	**36 792 226**	**–**	**–**	**36 792 226**
- Cash on hand	65 989	–	–	**65 989**
- Cash balances with the CBR	5 360 029	–	–	**5 360 029**
- Overnight placements with the CBR	8 002 191	–	–	**8 002 191**
- Correspondent accounts and overnight placements	22 059 607	–	–	**22 059 607**
- Settlement accounts with trading systems	741 296	–	–	**741 296**
- Placements with other banks with original maturities of less than three months	563 114	–	–	**563 114**
Mandatory cash balances with the Central Bank of the Russian Federation	**377 746**	**–**	**–**	**377 746**
Due from other banks	**829 389**	**–**	**–**	**829 389**
- Placements with other banks with original maturities of more than three month	829 389	–	–	**829 389**
Loans and advances to customers	**17 484 666**	**–**	**–**	**17 484 666**
- Corporate loans	15 344 313	–	–	**15 344 313**
- Structured finance loans	2 140 353	–	–	**2 140 353**
Securities available for sale	**–**	**–**	**1 841 161**	**1 841 161**
Derivative financial instruments	**–**	**21 294 054**	**–**	**21 294 054**
Other financial assets	**78 032**	**–**	**–**	**78 032**
- Accrued income receivable	71 062	–	–	**71 062**
- Other	6 970	–	–	**6 970**
Total financial assets	**55 562 059**	**21 294 054**	**1 841 161**	**78 697 274**

All financial liabilities of the Bank, except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as instruments at fair value through profit or loss.

(In thousands of Russian roubles)

30. Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include other companies of Credit Agricole Group.

At 31 December 2016, the outstanding balances with related parties were as follows:

	2016	
	Shareholders	**Other related parties**
Cash and cash equivalents		
- Correspondent accounts and overnight placements (0,0%)	39 214	11 590 325
- Placements with other banks with original maturities of less than three months (0,1%)	22	15
Derivative financial instruments (assets)	97 739	
Other assets		
- Accrued income receivable	21 168	2 997
Due to other banks (0,0%-5,0%)	1 547 507	6 465 494
Derivative financial instruments (liabilities)	12 924 472	–
Subordinated debt (4,55%)	6 306 951	–
Other liabilities		
- Accrued fees	13 741	47
- Deferred income on credit related commitments	10	198
- Accrued IT expenses	54 308	7 236

At 31 December 2015, the outstanding balances with related parties were as follows:

	2015	
	Shareholders	**Other related parties**
Cash and cash equivalents		
- Correspondent accounts and overnight placements (0,0%)	8 454 452	12 002 525
- Placements with other banks with original maturities of less than three months (0,1%)	187 882	–
Derivative financial instruments (assets)	1 242 701	818
Other assets		
- Accrued income receivable	66 130	4 665
Due to other banks (0,0%-5,0%)	629 349	37 135
Derivative financial instruments (liabilities)	20 072 973	–
Subordinated debt (4,55%)	7 573 901	–
Other liabilities		
- Accrued fees	12 084	2
- Deferred income on credit related commitments	14	204
- Accrued IT expenses	12 940	1 982

Aggregate amounts lent to/borrowed from and repaid by/to related parties during 2016 were:

	Shareholders	**Other related parties**
Amounts lent to related parties during the period	2 193 312 770	868 907 710
Amounts repaid by related parties during the period	2 201 915 830	868 874 791
Amounts borrowed from related parties during the period	93 656 847	9 339 619
Amounts repaid to related parties during the period	94 004 321	2 958 509

(In thousands of Russian roubles)

30. Related Party Transactions (continued)

Aggregate amounts lent to / borrowed from and repaid by/to related parties during 2015 were:

	Shareholders	**Other related parties**
Amounts lent to related parties during the period	2 641 753 744	1 992 523 647
Amounts repaid by related parties during the period	2 633 606 877	1 992 560 363
Amounts borrowed from related parties during the period	203 374 956	10 481 772
Amounts repaid to related parties during the period	201 684 908	10 577 582

The income and expense items with related parties for the year 2016 and 2015 were as follows:

	2016		**2015**	
	Shareholders	**Other related parties**	**Shareholders**	**Other related parties**
Interest income	54 196	78 190	56 078	15 436
Interest expense	353 701	5 372	370 662	5 085
Fee and commission income	28 157	24 683	441 301	20 870
Fee and commission expense	86 610	3 531	117 296	15 512
Gains less losses / (Losses less gains) from trading in foreign currencies	(2 734 103)	123 817	(3 323 782)	(193 719)
Foreign exchange translation (losses less gains) / gains less losses	2 419 662	818	282 688	(818)
(Losses less gains) / Gains less losses from operations with interest rate derivatives	3 815 288	–	5 053 747	–
Other operating income	11 327	2 908	60 116	891
Administrative and other operating expenses	169 140	14 444	133 358	7 136

At 31 December 2016 and at 31 December 2015, other rights and obligations with related parties were as follows:

	2016		**2015**	
	Shareholders	**Other related parties**	**Shareholders**	**Other related parties**
Guarantees received by the Bank at the year end	293 345 631	20 673 826	427 369 683	4 233 500
Guarantees issued by the Bank at the year end	246 584	743 139	716 509	1 040 780

Key management compensation is presented below:

	2016		**2015**	
	Expense	**Accrued liability**	**Expense**	**Accrued liability**
Salaries and short-term bonuses	173 386	27 653	249 141	33 251
Total	**173 386**	**27 653**	**249 141**	**33 251**

At 31 December 2016 contributions to the social security fund, pension fund and obligatory medical insurance fund from salaries and short-term bonuses equal to RUB 9 191 thousand (2015: RUB 18 443 thousand).

Short-term bonuses are to be paid in full within twelve months after the end of the period in which management rendered correspondent services.

31. Events after the End of the Reporting Period

There is nothing to disclose.