AO UniCredit Bank

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2016

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AO UniCredit Bank

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2016

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2016, and the related consolidated statements of comprehensive income for the year then ended, changes in shareholder's equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 1016 were approved by the Supervisory Board of AO UniCredit Bank on 10 March 2017 based on the decision of Board of Management of AO UniCredit Bank dated 7 March 2017.

M. Alekseev
Chairman of the Board of Management

10 March 2017

V. Starovoytov
Acting Chief Accountant

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Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Supervisory Board of AO UniCredit Bank

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers We focused on this area because the Management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. Certain part of impairment for loan portfolio to corporate customers is individually calculated. For retail customers the impairment is calculated on a modelled basis for portfolios of loans. In particular we focused on: • the principal assumptions underlying the calculation of impairment for portfolios of loans, the operation of the models to make those calculations and the application of adjustments to the results produced by those models; • the principal assumptions underlying the calculation of discounted cash flows for loans for which impairment is identified on an individual basis; • how impairment events that have not yet resulted in a payment default are identified and measured. See Note 9 to the consolidated financial statements on pages 39-45 respectively.	We assessed the design and implementation, and tested the operating effectiveness of relevant controls over management's processes for establishing and monitoring the levels of both specific and collective provisions, impairment data and calculations. These controls included those over the identification of which loans to customers were impaired and the calculation of the impairment provisions. We determined that we could rely on these controls for the purposes of our audit. In addition, we examined a sample of loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties. We found no material exceptions in these tests. Where impairment was individually calculated, we tested a sample of loans to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We found no material exceptions in these tests. Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data and assumptions used. Our work included the following: • we compared the principal assumptions made with our own knowledge of other practices and actual experience; • we tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models independently and comparing the results; • we considered the potential for impairment to be affected by events which were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	In the certain cases, we formed a different view on impairment provisions from that of management, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.
Valuation of derivative financial instruments and hedge accounting The Group has a portfolio of derivative financial instruments, which are used for trading and hedging purposes, many of which are designated in hedge accounting relationships. We focused on this area because of complexity of derivatives and hedging accounting. The application of hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") requires that the Group values hedged items for hedged risks only and then accurately identifies all sources of hedge accounting ineffectiveness that arise. In particular, we focused on: • key relevant controls for derivative and hedge accounting; • the valuation model of derivative instruments; • the assessment of hedge documentation, hedge relationship and hedge designation for compliance with the requirements of IAS 39; • the assessment of hedging accounting effectiveness. See Note 8 to the consolidated financial statements on pages 37-39.	We assessed the design and implementation, and tested the operating effectiveness of relevant controls over management's process for monitoring the Group's treasury related activities. We determined that we could rely on these controls for the purposes of our audit. We assessed valuations of derivative instruments and hedge accounting. We assessed the methodologies used, judgements and assumptions made. We tested the Group's calculation of hedge accounting effectiveness to assess whether the Group had appropriately calculated hedge ineffectiveness to be recorded in the income statement and to assess whether there were any hedge relationships that should be discontinued. For selected significant financial instruments, we made our own valuations using independent source of information and compared the results of our work to that of the Group. Overall, in our view, in the context of the inherent uncertainties, these valuations were within a reasonable range of outcomes.
Information Technology systems and controls We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related information technology (the "IT")	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
dependent manual controls are not designed and operating effectively. A particular area of focus related to migration process to the new IT systems.	required. We tested the migration process to the new IT systems and data transition between the systems, including specific audit procedures to cover completeness and correctness of the data. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. In some cases certain deficiencies in data migration process were identified, however, the combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or 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 Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Group is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Group's annual financial statements for 2016 we performed procedures with respect to the Group's compliance with the obligatory ratios as at 1 January 2017 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2017 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

   (a) in accordance with the CBRF requirements and recommendations as at 31 December 2016 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) as at 31 December 2016, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   (c) as at 31 December 2016, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

   (d) frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2016 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;

   (e) as at 31 December 2016, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2016 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Neklyudov Sergei Vyacheslavovich
Engagement partner

Deloitte & Touche

13 March 2017

Audited entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration # 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register series 77 No. 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation # 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

AO UniCredit Bank

Consolidated Statement of Financial Position
as at 31 December 2016
(in thousands of Russian Roubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash balances	5	58 588 565	22 730 813
Trading securities	6		
- held by the Group		1 154 603	3 652 106
- pledged under repurchase agreements		1 251 058	-
Amounts due from credit institutions	7	269 500 170	336 744 808
Derivative financial assets	8	41 257 596	65 526 002
Derivative financial assets designated for hedging	8	12 738 828	7 042 056
Changes in fair value of portfolio hedged items	8	1 695 189	998 710
Loans to customers	9	677 010 924	867 295 074
Investment securities:	10		
- available-for-sale			
- held by the Group		40 921 909	54 895 759
- pledged under repurchase agreements		19 704 611	14 841 932
- held-to-maturity			
- held by the Group		30 704 604	16 130 748
- pledged under repurchase agreements		212 666	-
Fixed assets	12	5 207 034	5 612 240
Intangible assets	13	6 510 549	5 350 637
Current income tax assets		14 113	1 858 930
Other assets	15	5 777 354	4 445 843
TOTAL ASSETS		**1 172 249 773**	**1 407 125 658**
LIABILITIES			
Amounts due to credit institutions	16,19	152 108 660	193 922 309
Financial liabilities held for trading	7,9	4 344 152	-
Derivative financial liabilities	8	16 857 167	49 246 075
Derivative financial liabilities designated for hedging	8	12 338 707	19 306 086
Changes in fair value of portfolio hedged items	8	(146 303)	404 256
Amounts due to customers	17	779 101 902	931 426 988
Debt securities issued	18	6 507 846	32 979 085
Deferred income tax liabilities	14	7 573 053	7 390 616
Current income tax liabilities		1 624 170	-
Other liabilities	15	10 265 514	7 922 980
TOTAL LIABILITIES		**990 574 868**	**1 242 598 395**
EQUITY			
Share capital	20	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		15 759	(765 540)
Revaluation reserve for available-for-sale securities		(559 841)	(2 902 933)
Retained earnings		139 993 900	125 970 649
TOTAL EQUITY		**181 674 905**	**164 527 263**
TOTAL LIABILITIES AND EQUITY		**1 172 249 773**	**1 407 125 658**

M. Alekseev
Chairman of the Board of Management

V. Starovoytov
Acting Chief Accountant

10 March 2017

The accompanying notes on pages 12 to 80 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Comprehensive Income
for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Notes	2016	2015
Interest income and similar revenues			
Loans to customers		67 969 146	72 099 950
Derivative financial instruments		22 888 291	30 455 475
Amounts due from credit institutions		11 634 977	11 861 813
Margin from derivative financial instruments designated for hedging	8	7 965 385	9 837 917
Trading and investment securities		6 996 042	5 686 136
		117 453 841	**129 941 291**
Interest expense and similar charges			
Amounts due to customers		(39 291 263)	(44 980 932)
Derivative financial instruments		(20 958 490)	(26 826 598)
Amounts due to credit institutions		(10 175 531)	(13 731 620)
Debt securities issued		(1 928 718)	(4 041 374)
		(72 354 002)	**(89 580 524)**
Net interest income		**45 099 839**	**40 360 767**
Fee and commission income	23	9 944 134	8 704 076
Fee and commission expense	23	(3 967 626)	(4 324 696)
Net fee and commission income		**5 976 508**	**4 379 380**
Dividend income		4	3
Gains on financial assets and liabilities held for trading	22	2 147 321	5 257 463
Fair value adjustments in portfolio hedge accounting	8	(369 734)	(960 816)
Gains/ (losses) on disposal of:			
- loans		99 294	53 118
- available-for-sale financial assets		233 863	(118 562)
OPERATING INCOME		**53 187 095**	**48 971 353**
(Impairment) / recovery on:			
- loans	9	(17 218 380)	(14 620 828)
- other financial transactions		(369 951)	11 781
NET INCOME FROM FINANCIAL ACTIVITIES		**35 598 764**	**34 362 306**
Personnel expenses	24	(8 747 579)	(7 793 018)
Other administrative expenses	24	(6 433 723)	(5 553 486)
Depreciation of fixed assets	12	(637 604)	(716 931)
Amortization of intangible assets	13	(1 223 895)	(879 794)
Other provisions		(622 547)	(180 976)
Net other operating expenses		(343 056)	(263 268)
Operating costs		**(18 008 404)**	**(15 387 473)**
Gains on disposal of fixed assets		11 686	8 264
PROFIT BEFORE INCOME TAX EXPENSE		**17 602 046**	**18 983 097**
Income tax expense	14	(3 578 795)	(3 465 103)
PROFIT FOR THE YEAR		**14 023 251**	**15 517 994**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes;	14	751 708	662 625
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year;	14	29 591	113 322
Revaluation reserve for available-for-sale securities, net of tax:			
- fair value changes;	14	2 051 958	5 814 273
- reclassification adjustment relating to available-for-sale financial assets disposed of in the year.	14	291 134	353 025
Other comprehensive income for the year, net of tax		**3 124 391**	**6 943 245**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17 147 642**	**22 461 239**

M. Alekseev
Chairman of the Board of Management
10 March 2017

V. Starovoytov
Acting Chief Accountant

АО "ЮниКредит Банк"
Акционерное общество
ОГРН 1027739082106
ИНН 7710030411
AO UniCredit Bank
г. МОСКВА

The accompanying notes on pages 12 to 80 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2015	**41 787 806**	**437 281**	**(1 541 487)**	**(9 070 231)**	**110 452 655**	**142 066 024**
Total comprehensive income						
Profit for the year	-	-	-	-	15 517 994	15 517 994
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	775 947	-	-	775 947
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	6 167 298	-	6 167 298
Total other comprehensive income	**-**	**-**	**775 947**	**6 167 298**	**-**	**6 943 245**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**775 947**	**6 167 298**	**15 517 994**	**22 461 239**
31 December 2015	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**
1 January 2016	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**
Total comprehensive income						
Profit for the year	-	-	-	-	14 023 251	14 023 251
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	781 299	-	-	781 299
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	2 343 092	-	2 343 092
Total other comprehensive income	**-**	**-**	**781 299**	**2 343 092**	**-**	**3 124 391**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**781 299**	**2 343 092**	**14 023 251**	**17 147 642**
31 December 2016	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**139 993 900**	**181 674 905**

M. Alekseev
Chairman of the Board of Management

10 March 2017

Акционерное общество "ЮниКредит Банк" ОГРН 1027739082106 ИНН 7710030411 AO UniCredit Bank г. Москва

V. Starovoytov
Acting Chief Accountant

AO UniCredit Bank

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		116 243 579	128 650 468
Interest paid		(81 879 165)	(72 552 924)
Fees and commissions received		10 347 433	8 835 164
Fees and commissions paid		(4 091 289)	(4 224 189)
Net receipts from trading securities		8 492	408 153
Net payments from derivatives and dealing in foreign currencies		(17 446 453)	(53 202 919)
Salaries and benefits paid		(7 301 010)	(7 212 036)
Other operating expenses paid		(5 352 150)	(5 472 350)
Cash flows from / (used in) operating activities before changes in operating assets and liabilities		**10 529 437**	**(4 770 633)**
Net (increase) /decrease in operating assets			
Obligatory reserve with the CBR		(2 407 050)	2 019 558
Trading securities		1 233 616	926 595
Amounts due from credit institutions		14 812 462	49 511 762
Loans to customers		99 920 590	68 619 686
Other assets		(2 737 183)	1 087 152
Net (decrease) / increase in operating liabilities			
Amounts due to credit institutions		(8 456 708)	(71 041 904)
Financial liabilities held for trading	7,9	4 344 152	-
Amounts due to customers		(33 527 471)	(40 631 443)
Other liabilities		3 667 077	15 282
Net cash from operating activities before income tax		**87 378 922**	**5 736 055**
Income tax paid		(708 469)	(2 596 717)
Net cash from operating activities		**86 670 453**	**3 139 338**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		4	3
Purchase of available-for-sale investment securities		(8 625 544)	(17 877 038)
Proceeds from redemption and sale of available-for-sale investment securities		17 739 270	11 403 471
Purchases of held-to-maturity investment securities		(16 258 912)	(15 875 673)
Proceeds from sale of fixed and intangible assets		6 815	9 005
Purchase of fixed and intangible assets		(2 323 413)	(2 319 113)
Net cash used in investing activities		**(9 461 780)**	**(24 659 345)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds		-	4 000 000
Redemption of bonds issued on maturity		(15 205 218)	(626 813)
Redemption of bonds issued under put option		(10 711 307)	(31 736 538)
Redemption of subordinated debt		(14 233 680)	-
Proceeds from subordinated debt received		-	27 761 347
Net cash used in financing activities		**(40 150 205)**	**(602 004)**
Effect of exchange rates changes on cash and cash balances		(1 200 716)	1 979 428
Net increase / (decrease) in cash and cash balances		**35 857 752**	**(20 142 583)**
CASH AND CASH BALANCES, beginning of the year	**5**	**22 730 813**	**42 873 396**
CASH AND CASH BALANCES, ending of the year	**5**	**58 588 565**	**22 730 813**

M. Alekseev
Chairman of the Board of Management

V. Starovoytov
Acting Chief Accountant

10 March 2017

Акционерное общество "ЮниКредит Банк" ОГРН 1027739082106 ИНН 7710030411 AO UniCredit Bank г. Москва

The accompanying notes on pages 12 to 80 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank") and it's subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License of the Central Bank of Russia (hereinafter – the "CBR") for banking operations as well as the license of the CBR for operations with precious metals, both issued on 22 December 2014 for No. 1. The Bank also possesses licences of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 December 2016 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing, a leasing company as it's subsidiary. LLC UniCredit Leasing owns 100% of the shares in ZAO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market.

The consolidated financial statements include the following subsidiary:

	Ownership, %			
Entities	**2016**	**2015**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 1 October 2016 the reorganization of UniCredit Group Division responsible for the Central and Eastern Europe has been successfully completed. Under this reorganization, the transfer of the participations in subsidiaries based in the Central and Eastern Europe from UniCredit Bank Austria AG to UniCredit S.p.A. has taken place. As a result, the immediate parent of the Group has changed to UniCredit S.p.A. with legal validity from 1 October 2016 and accounting effects retroactive from 1 January 2016 (see Note 28 for details). This reorganization allowed to simplify the structure and strengthen the central steering functions under the direct supervision of UniCredit Group while preserving the existing know-how and customers' relationships.

Thus, UniCredit Bank Austria AG has ceased to exist as sub-holding but remained a member of UniCredit Group. As at 31 December 2016 the sole shareholder of the Group is UniCredit S.p.A.

As at 31 December 2016 the Bank has 13 branches and 11 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (as at 31 December 2015: 13 branches and 12 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Accounting standards. The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (hereinafter – "RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

Principles of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

2. Significant accounting policies (continued)

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries and associates to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control over the subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, or when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2. Significant accounting policies (continued)

The results and assets and liabilities of associates are incorporated using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Financial assets

Initial recognition. Financial assets in the scope of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss*.* Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

2. Significant accounting policies (continued)

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

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

- Intends to sell immediately or in the near term;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

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 amortisation process.

Available-for-sale financial assets. 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 as other comprehensive income in equity 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 equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

Available-for-sale assets are subsequently measured at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Determination of fair value. 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, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm’s length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

2. Significant accounting policies (continued)

Offsetting. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. 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, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss.
If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

2. Significant accounting policies (continued)

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

Repurchase and reverse repurchase agreements and securities lending. Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated 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 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 and accrued over the life of repurchase agreements using the effective interest method.

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

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings. Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 its own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. 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 amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Finance lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group enters into finance lease as a lessor the present value of lease payments are recognised as loans to customers at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

2. Significant accounting policies (continued)

Operating lease. Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets. The Group 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 reorganisation 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 Group 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 Group 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 Group. 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 write-off is later recovered, the recovery is credited to the allowance account in profit or loss.

The Group estimates impairment for loans to corporate customers based on the following approach:

- For exposures for which no identifications of impairement has been identified on an individual basis, the calculation is based on portfolio (statistical) assessment which takes into account historical loss experience, probability of default and loss given default.
- For impaired exposures the calculation is done on individual assessment and is based on the analysis of discounted future cash flows.

The Group estimates impairement for loans to retails customers based on portfolio (statistical) assessment which takes into account historical loss experience for each type of loans, probability of default and loss given default.

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.

2. Significant accounting policies (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. For purposes of impairment calculation the Group takes into account liquid collateral, reduced by haircut for certain type of collateral.

Held-to-maturity financial investments. For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

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

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 profit or loss.

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of comprehensive income for the period of recovery.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

***Non-financial assets*.** Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

2. Significant accounting policies (continued)

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 Group 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 Group 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 Group 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 Group'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 Group 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 financial liability 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.

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

2. Significant accounting policies (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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 liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fixed assets. Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. 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	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

2. Significant accounting policies (continued)

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Impairment for credit-related commitments is recognized on exposures with customers, for which the probability of default is within the range from 50% to 100%.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Fiduciary activities. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 Group makes contributions to 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.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

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 consolidated financial statements are authorised for issue.

Segment reporting. An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2. Significant accounting policies (continued)

Contingencies. Contingent liabilities are not recognised in the consolidated 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 consolidated 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 Group and the revenue can be reliably measured.

***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 Group 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 recorded 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.

Fee and commission income. The Group 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:

<u>Fee income earned from services that are provided over a certain period of time.</u> 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.

<u>Fee income from providing transaction services.</u> 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.

***Dividend income*.** Dividend income is recognised in profit or loss on the date when the dividend is declared.

Foreign currency translation. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2016	31 December 2015
RUB/1 US Dollar	60.6569	72.8827
RUB/1 Euro	63.8111	79.6972

2. Significant accounting policies (continued)

New standards effective starting from the current reporting period. The following new and revised standards and interpretations became effective for the Group from 1 January 2016.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Annual Improvements to IFRSs 2012-2014 Cycle.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to IAS 1 Disclosure Initiative. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the consolidated financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or
(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. Significant accounting policies (continued)

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective. The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[2];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[2];
- IFRS 16 *Leases*[3];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[2];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 7 – *Disclosure Initiative*[1];
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*[1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (hereinafter – "FVTOCI") measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. Significant accounting policies (continued)

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Debt securities classified as held-to-maturity investments and loans carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Listed debt securities classified as available-for-sale investments carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the notes' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt securities will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debt securities are derecognised or reclassified;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment. Financial assets measured at amortised cost, listed debt securites that will be carried at FVTOCI under IFRS 9, finance lease receivables and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

In general, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

2. Significant accounting policies (continued)

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   (a) the original liability is derecognised;
   (b) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   (c) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

2. Significant accounting policies (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The management of the Company does not anticipate that the application of the amendments in the future will have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 Disclosure Initiative. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

2. Significant accounting policies (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively. The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Annual Improvements to IFRSs 2014-2016 Cycle*.* This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

3. Significant accounting judgements and estimates

Under the IFRS, management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the consolidated financial statements as at 31 December 2016, as required by the accounting policies and regulations. The processes adopted confirm the carrying values as at 31 December 2015. Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment.
The parameters and information used to check the above-mentioned values were therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Uncertainty affecting estimates is generally inherent in the measurement of:

- fair value of financial instruments not listed in active markets;

(Thousands of Russian Roubles)

3. Significant accounting judgements and estimates (continued)

- loans and receivables, investments and, in general, any other financial assets/liabilities;
- provisions for risks and charges;
- deferred tax assets and liabilities;
- whose assessment may significantly change over time according to the trend in: domestic and international socioeconomic conditions and subsequent impact on the Group's profitability and customers' creditworthiness; financial markets which affect changes in interest rates and prices; real estate market affecting the value of property received as collateral.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Operating segments

For management purposes, the Group has four reporting business segments:

Corporate and Investment banking *(*hereinafter – *"CIB")* includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2016	31 December 2015
Assets		
CIB	795 402 685	1 015 688 084
Retail banking	112 704 869	120 721 231
Leasing	17 240 438	14 001 241
Other	246 901 781	256 715 102
Total assets	**1 172 249 773**	**1 407 125 658**
Liabilities		
CIB	718 941 087	855 887 223
Retail banking	213 138 287	224 639 697
Leasing	14 095 700	11 186 533
Other	44 399 794	150 884 942
Total liabilities	**990 574 868**	**1 242 598 395**

(Thousands of Russian Roubles)

4. Operating segments (continued)

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

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	30 289 044	7 675 323	1 048 145	6 087 327	45 099 839
Inter-segment income/ (expense)	709 659	1 523 157	-	(2 232 816)	-
Net interest income	**30 998 703**	**9 198 480**	**1 048 145**	**3 854 511**	**45 099 839**
Net fee and commission income from external customers	2 174 562	3 787 059	14 887	-	5 976 508
Dividend income	-	-	-	4	4
Gains on financial assets and liabilities held for trading from external customers	739 408	1 141 348	3 408	263 157	2 147 321
Fair value adjustments in portfolio hedge accounting	-	-	-	(369 734)	(369 734)
Gains on disposals of financial assets	290 233	42 924	-	-	333 157
Operating income	**34 202 906**	**14 169 811**	**1 066 440**	**3 747 938**	**53 187 095**
Impairment on loans and other financial transactions	(13 371 855)	(4 033 539)	(178 813)	(4 124)	(17 588 331)
Net income from financial activities	**20 831 051**	**10 136 272**	**887 627**	**3 743 814**	**35 598 764**
Operating costs including:	(6 397 716)	(9 867 285)	(453 259)	(1 290 144)	(18 008 404)
depreciation of fixed assets and amortization of intangible assets	(675 145)	(1 180 908)	(5 446)	-	(1 861 499)
Gains on disposal of fixed assets	-	-	-	11 686	11 686
Profit before income tax expense	**14 433 335**	**268 987**	**434 368**	**2 465 356**	**17 602 046**
Income tax expense					(3 578 795)
Profit for the year					**14 023 251**
Cash flow hedge reserve					781 299
Revaluation reserve for available-for-sale securities					2 343 092
Total comprehensive income					**17 147 642**

(Thousands of Russian Roubles)

4. Operating segments (continued)

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

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	26 128 113	10 309 738	836 617	3 086 299	40 360 767
Inter-segment income/ (expense)	485 389	(101 449)	-	(383 940)	-
Net interest income	**26 613 502**	**10 208 289**	**836 617**	**2 702 359**	**40 360 767**
Net fee and commission income/ (expense) from external customers	1 556 945	2 981 431	15 612	(174 608)	4 379 380
Dividend income	-	-	-	3	3
Gains/ (losses) on financial assets and liabilities held for trading from external customers	3 216 072	1 404 603	(5 772)	642 560	5 257 463
Fair value adjustments in portfolio hedge accounting	-	-	-	(960 816)	(960 816)
(Losses)/ gains on disposals of financial assets	(93 228)	27 784	-	-	(65 444)
Operating income	**31 293 291**	**14 622 107**	**846 457**	**2 209 498**	**48 971 353**
Impairment on loans and other financial transactions	(11 309 225)	(3 220 771)	(76 104)	(2 947)	(14 609 047)
Net income from financial activities	**19 984 066**	**11 401 336**	**770 353**	**2 206 551**	**34 362 306**
Operating costs including:	(5 419 716)	(8 876 262)	(417 198)	(674 297)	(15 387 473)
depreciation of fixed assets and amortization of intangible assets	(524 792)	(1 068 996)	(2 937)	-	(1 596 725)
Gains on disposal of fixed assets	-	-	-	8 264	8 264
Profit before income tax expense	**14 564 350**	**2 525 074**	**353 155**	**1 540 518**	**18 983 097**
Income tax expense					(3 465 103)
Profit for the year					**15 517 994**
Cash flow hedge reserve					775 947
Revaluation reserve for available-for-sale securities					6 167 298
Total comprehensive income					**22 461 239**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2016 is presented below:

	Net interest income	Assets
Russian Federation	30 323 526	904 100 002
OECD countries	12 759 583	222 259 677
Non-OECD countries	2 016 730	45 890 094
Total	**45 099 839**	**1 172 249 773**

Geographical information on net interest income and assets for 2015 is presented below:

	Net interest income	Assets
Russian Federation	22 301 298	1 035 819 539
OECD countries	15 515 051	303 084 506
Non-OECD countries	2 544 418	68 221 613
Total	**40 360 767**	**1 407 125 658**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2016	31 December 2015
Cash on hand	12 507 671	14 356 435
Current accounts with the CBR	46 080 894	8 374 378
Cash and cash balances	**58 588 565**	**22 730 813**

Included in cash and cash balances as at 31 December 2016 RUB 2 050 000 thousand (31 December 2015: RUB 2 050 000 thousand) was pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (31 December 2015: in September 2011 and September 2015) (see Note 18 for details).

(Thousands of Russian Roubles)

6. Trading securities

Trading securities comprise:

	31 December 2016	31 December 2015
USD denominated		
Russian Government Eurobonds	1 006	7 137
RUB denominated		
Russian Government Bonds	2 086 987	946 463
Corporate and bank bonds	317 668	2 698 506
Trading securities	**2 405 661**	**3 652 106**

As at 31 December 2016 approximately 88% of trading securities held by the Group were rated not lower than "BBB-" (31 December 2015: 94%).

As at 31 December 2016 included in trading securities are securities sold under repurchase agreements in the amount of RUB 1 251 058 thousand (31 December 2015: no securities) (see Notes 11, 16 and 17 for details).

As at 31 December 2016 there are no securities blocked as collateral for "overnight" loans with the CBR in trading securities (31 December 2015: corporate and bank bonds in amount of RUB 512 118 thousand). As at 31 December 2016 and 31 December 2015 the Group has no "overnight" loans with the CBR.

Nominal interest rates and maturities of trading securities are as follows:

	31 December 2016		31 December 2015	
	%	Maturity	%	Maturity
Russian Government Bonds	7.75-8.5%	2026, 2031	2.5-7.05%	2023, 2028
Russian Government Eurobonds	11%	2018	11-12.75%	2018, 2028
Corporate and bank bonds	8.4%	2018	7.5-11.49%	2016, 2018

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	31 December 2015
Current accounts with credit institutions	63 506 296	60 609 432
Time deposits	152 597 280	254 059 273
Reverse repurchase agreements with credit institutions	47 114 687	18 201 246
Obligatory reserve with the CBR	6 281 907	3 874 857
Amounts due from credit institutions	**269 500 170**	**336 744 808**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2016 there are four counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2016, the aggregate amount of these balances is RUB 209 676 322 thousand (31 December 2015: three counterparties with aggregate amount of RUB 253 319 891 thousand).

(Thousands of Russian Roubles)

7. Amounts due from credit institutions (continued)

As at 31 December 2016 and 31 December 2015 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2016 and 31 December 2015 comprise:

	31 December 2016		31 December 2015	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Government bonds	41 073 594	40 474 555	11 571 177	12 283 725
Corporate bonds	4 737 859	5 230 273	5 680 798	6 124 521
Bank bonds	1 303 234	1 394 843	949 271	1 018 936
Total	**47 114 687**	**47 099 671**	**18 201 246**	**19 427 182**

As at 31 December 2016 Russian government bonds with the total fair value of RUB 4 121 288 thousand were sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position.

As at 31 December 2016 approximately 75% (31 December 2015: 84%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2016 the Group had term placements with the CBR in amount of RUB 2 000 492 thousand (31 December 2015: no term placements with the CBR).

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2016			31 December 2015		
	Notional principal	**Fair value**		**Notional principal**	**Fair value**	
		Asset	**Liability**		**Asset**	**Liability**
Cross-currency interest rate swaps	153 530 305	32 134 361	9 703 950	228 353 208	56 770 885	39 765 795
Interest rate swaps and options	289 931 675	5 185 775	5 367 478	251 888 460	7 044 837	7 333 570
Foreign exchange forwards, swaps and options	63 876 941	3 937 460	1 785 739	87 409 741	1 710 280	2 146 710
Total derivative financial assets/ liabilities		**41 257 596**	**16 857 167**		**65 526 002**	**49 246 075**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a gain of RUB 1 578 393 thousand for the year ended 31 December 2016 (31 December 2015: loss of RUB 1 089 893 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

(Thousands of Russian Roubles)

8. Derivative financial instruments (continued)

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2016			31 December 2015		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	175 505 135	641 415	442 417	321 333 127	380 446	345 545
Cross-currency interest rate swaps	122 032 005	9 786 243	3 589 904	100 927 028	2 084 247	11 372 356
Total cash flow hedge		**10 427 658**	**4 032 321**		**2 464 693**	**11 717 901**
Fair value hedge						
Interest rate swaps	552 263 450	2 311 170	8 306 386	704 837 888	4 577 363	7 588 185
Total fair value hedge		**2 311 170**	**8 306 386**		**4 577 363**	**7 588 185**
Total derivative financial assets/ liabilities designated for hedging		**12 738 828**	**12 338 707**		**7 042 056**	**19 306 086**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 1 841 363 thousand recognised in portfolio hedge accounting as at 31 December 2016 (31 December 2015: RUB 572 941 thousand), presented as a loss of RUB 1246 909 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2016 (31 December 2015: presented as loss of RUB 7 993 371 thousand).

The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 1 841 491 thousand as at 31 December 2016 (31 December 2015: positive changes in the amount of RUB 594 454 thousand), presented as gain of RUB 1 247 038 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2016 (31 December 2015: presented as a gain of RUB 8 014 884 thousand).

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2016, the positive effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 15 759 thousand (31 December 2015: negative RUB 765 540 thousand), net of tax RUB 3 940 thousand (31 December 2015: RUB 191 385 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 369 734 thousand for the year ended 31 December 2016 (31 December 2015: loss of RUB 960 816 thousand) and consists of a difference between a negative change in fair value of financial instruments designated for hedging purposes and a positive change in fair value of hedged items in the amount of RUB 128 thousand (31 December 2015: positive change of RUB 21 513 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 369 863 thousand for the year ended 31 December 2016 (31 December 2015: negative change of RUB 982 329 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

(Thousands of Russian Roubles)

8. Derivative financial instruments (continued)

Margin from derivative financial instruments designated for hedging amounted RUB 7 965 385 thousand for the year ended 31 December 2016 (31 December 2015: RUB 9 837 917 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 30 345 948 thousand (31 December 2015: RUB 26 697 085 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 22 380 563 thousand (31 December 2015: RUB 16 859 168 thousand).

9. Loans to customers

Loans to customers comprise:

	31 December 2016	31 December 2015
Corporate customers	568 915 558	755 082 908
Retail customers, including SME	126 628 456	132 646 305
Lease receivables	15 639 280	12 481 464
Reverse repurchase agreements with companies	11 082 381	533 189
Gross loans to customers	**722 265 675**	**900 743 866**
Less: allowance for loan impairment	(45 254 751)	(33 448 792)
Total loans to customers	**677 010 924**	**867 295 074**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2016 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2016	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**
Charge for the year	13 009 847	4 029 720	178 813	**17 218 380**
Loans sold or recovered through acceptance of collateral during the year	(377 172)	(50 897)	-	**(428 069)**
Loans written-off during the year	(1 750 463)	(1 434 641)	(86 512)	**(3 271 616)**
Effect of exchange rate changes	(1 118 031)	(594 705)	-	**(1 712 736)**
At 31 December 2016	**31 118 351**	**13 923 587**	**212 813**	**45 254 751**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2015 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2015	**10 679 721**	**9 985 332**	**84 268**	**20 749 321**
Charge for the year	11 328 787	3 215 937	76 104	**14 620 828**
Loans sold or recovered through acceptance of collateral during the year	(369 578)	(74 084)	-	**(443 662)**
Loans written-off during the year	(1 143 849)	(1 968 911)	(39 860)	**(3 152 620)**
Effect of exchange rate changes	859 089	815 836	-	**1 674 925**
At 31 December 2015	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2016:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	524 723 492	(2 776 029)	521 947 463
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	1 810 846	(18 099)	1 792 747
- Past due 31-90 days	80 814	(1 977)	78 837
Impaired loans			
- Not past due	7 284 766	(3 118 533)	4 166 233
- Past due less than 31 days	376 244	(137 373)	238 871
- Past due 31-90 days	5 284 198	(3 079 368)	2 204 830
- Past due 91-180 days	1 232 930	(764 893)	468 037
- Past due over 180 days	28 122 268	(21 222 079)	6 900 189
Total loans to corporate customers	**568 915 558**	**(31 118 351)**	**537 797 207**
Retail customers			
Standard loans, not past due	105 185 541	(556 411)	104 629 130
Standard loans, past due			
- Past due less than 31 days	2 174 386	(113 278)	2 061 108
- Past due 31-90 days	826 285	(155 658)	670 627
- Past due 91-180 days	220 223	(89 094)	131 129
- Past due over 180 days	32 589	(6 837)	25 752
Impaired loans			
- Not past due	113 737	(965)	112 772
- Past due less than 31 days	54 908	(3 380)	51 528
- Past due 31-90 days	111 549	(18 907)	92 642
- Past due 91-180 days	663 787	(279 869)	383 918
- Past due over 180 days	17 245 451	(12 699 188)	4 546 263
Total loans to retail customers	**126 628 456**	**(13 923 587)**	**112 704 869**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	14 916 921	(55 287)	14 861 634
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	112 494	(832)	111 662
- Past due 31-90 days	195 957	(2 563)	193 394
Impaired loans			
- Not past due	33 358	(9 442)	23 916
- Past due less than 31 days	77 223	(15 335)	61 888
- Past due 31-90 days	124 451	(33 431)	91 020
- Past due 91-180 days	146 577	(71 730)	74 847
- Past due over 180 days	32 299	(24 193)	8 106
Total lease receivables	**15 639 280**	**(212 813)**	**15 426 467**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 082 381	-	11 082 381
Total loans to customers	**722 265 675**	**(45 254 751)**	**677 010 924**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2015:

	Gross loans	**Impairment**	**Net loans**
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	709 479 029	(3 213 961)	706 265 068
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	2 825 193	(43 836)	2 781 357
- Past due 31-90 days	1 057 786	(29 127)	1 028 659
Impaired loans			
- Not past due	11 827 914	(3 219 232)	8 608 682
- Past due less than 31 days	238 053	(63 420)	174 633
- Past due 31-90 days	1 341 986	(865 539)	476 447
- Past due 91-180 days	4 760 156	(1 734 228)	3 025 928
- Past due over 180 days	23 552 791	(12 184 827)	11 367 964
Total loans to corporate customers	**755 082 908**	**(21 354 170)**	**733 728 738**
Retail customers			
Standard loans, not past due	112 265 778	(506 288)	111 759 490
Standard loans, past due			
- Past due less than 31 days	2 472 982	(124 252)	2 348 730
- Past due 31-90 days	1 202 829	(205 656)	997 173
- Past due 91-180 days	580 467	(194 197)	386 270
- Past due over 180 days	80 144	(9 926)	70 218
Impaired loans			
- Not past due	173 481	(25 501)	147 980
- Past due less than 31 days	86 260	(5 093)	81 167
- Past due 31-90 days	125 281	(27 099)	98 182
- Past due 91-180 days	1 065 294	(472 342)	592 952
- Past due over 180 days	14 593 789	(10 403 756)	4 190 033
Total loans to retail customers	**132 646 305**	**(11 974 110)**	**120 672 195**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 363 315	(56 942)	11 306 373
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	595 613	(4 244)	591 369
- Past due 31-90 days	400 320	(2 975)	397 345
Impaired loans			
- Not past due	45 847	(6 767)	39 080
- Past due less than 31 days	12 043	(6 456)	5 587
- Past due 31-90 days	16 661	(4 652)	12 009
- Past due 91-180 days	16 144	(10 160)	5 984
- Past due over 180 days	31 521	(28 316)	3 205
Total lease receivables	**12 481 464**	**(120 512)**	**12 360 952**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	533 189	-	533 189
Total loans to customers	**900 743 866**	**(33 448 792)**	**867 295 074**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table provides analysis of minimum lease payments as at 31 December 2016:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	8 747 400	7 013 300
From 1 to 5 years	9 193 453	7 501 034
Over 5 years	1 211 510	912 133
	19 152 363	**15 426 467**
Less unearned finance income	(3 725 896)	-
Present value of minimum lease payments receivable (net investment in the lease)	**15 426 467**	**15 426 467**

The following table provides analysis of minimum lease payments as at 31 December 2015:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	6 748 575	5 364 509
From 1 to 5 years	7 757 144	6 565 361
Over 5 years	457 087	431 082
	14 962 806	**12 360 952**
Less unearned finance income	(2 601 854)	-
Present value of minimum lease payments receivable (net investment in the lease)	**12 360 952**	**12 360 952**

Impaired loans*.* Interest income on impaired loans for the year ended 31 December 2016 amounted to RUB 1 686 561 thousand (year ended 31 December 2015: RUB 1 997 566 thousand).

Renegotiated loans. As at 31 December 2016 and 31 December 2015 loans to customers included loans totaling RUB 35 199 934 thousand and RUB 36 099 625 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

(Thousands of Russian Roubles)

9. Loans to customers (continued)

Collateral and other credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Loans to corporate customers		
Real estate	44 972 709	79 970 676
Guarantees	52 657 771	99 821 558
Other collateral	-	699 221
No collateral or other credit enhancement	440 166 727	553 237 283
Total loans to corporate customers	**537 797 207**	**733 728 738**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Loans to retail customers		
Real estate	29 453 775	31 330 903
Motor vehicles	34 867 772	47 357 656
No collateral or other credit enhancement	48 383 322	41 983 636
Total loans to retail customers	**112 704 869**	**120 672 195**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Lease receivables		
Real estate	579 311	654 876
Motor vehicles	4 382 137	3 074 582
Other collateral	10 465 019	8 631 494
Total lease receivables	**15 426 467**	**12 360 952**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

(Thousands of Russian Roubles)

9. Loans to customers (continued)

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

As at 31 December 2016 there are no loans pledged as collateral for term deposits due to the CBR (31 December 2015: RUB 49 218 141 thousand) (see Note 16 for details).

Included in retail loans as at 31 December 2016 are mortgage loans with gross amount of RUB 2 178 317 thousand (31 December 2015: RUB 7 541 188 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (31 December 2015: September 2011 and September 2015) (see Note 18 for details).

Repossessed collateral. As at 31 December 2016 and 31 December 2015, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2016, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 568 017 thousand (31 December 2016: RUB 473 061 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2016 and 31 December 2015 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2016 and 31 December 2015 comprise:

	31 December 2016		31 December 2015	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Government bonds	7 903 169	8 120 453	206 067	214 321
Corporate bonds	2 800 386	3 065 012	327 122	342 033
Bank bonds	378 826	404 960	-	-
Total	**11 082 381**	**11 590 425**	**533 189**	**556 354**

As at 31 December 2016 Russian government bonds with the total fair value of RUB 222 864 thousand were sold out of collateral pledged under reverse repurchase agreements with customers and disclosed as financial liabilities held for trading in the consolidated statement of financial position.

Concentration of loans to customers. As at 31 December 2016, the Group had RUB 178 362 658 thousand due from the ten largest borrowers (25% of gross loan portfolio) (31 December 2015: RUB 246 592 534 thousand or 27%). An allowance of RUB 158 765 thousand was recognised against these loans (31 December 2015: RUB 271 223 thousand).

As at 31 December 2016, the Group had three borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2015: eleven borrowers or a group of borrowers). As at 31 December 2016, the aggregate amount of these loans is RUB 103 353 608 thousand (31 December 2015: RUB 288 585 229 thousand).

(Thousands of Russian Roubles)

9. Loans to customers (continued)

Loans to customers are made principally within Russia in the following industry sectors:

	31 December 2016	31 December 2015
Mining and metallurgy	123 631 075	214 800 744
Energy	101 609 868	144 955 879
Trade	92 087 426	104 797 170
Chemicals	52 345 061	67 758 103
Agriculture and food	41 994 162	47 103 178
Real estate and construction	41 868 722	46 864 773
Timber processing	36 115 547	31 809 969
Machinery construction	32 219 434	27 965 727
Other manufacturing	26 536 979	32 414 461
Finance	15 841 489	11 442 154
Telecommunications	15 408 134	9 144 710
Transportation	10 450 043	20 805 728
Other	8 660 486	11 418 532
Gross loans to corporate customers	598 768 426	771 281 128
Gross loans to individuals	123 497 249	129 462 738
Gross loans to customers	**722 265 675**	**900 743 866**

Loans to individuals are divided by products as follows:

	31 December 2016	31 December 2015
Car loans	43 882 280	52 543 904
Consumer loans	39 223 666	33 549 521
Mortgages loans	31 408 890	34 245 074
Other loans	8 982 413	9 124 239
Gross loans to individuals	**123 497 249**	**129 462 738**

(Thousands of Russian Roubles)

10. Investment securities

Available-for-sale investment securities comprise:

	31 December 2016	31 December 2015
Debt and other fixed income investments available-for-sale		
USD denominated		
Russian Government Eurobonds	16 248 295	17 656 944
Corporate Eurobonds	-	239 432
RUB denominated		
Russian Government Bonds	34 972 838	34 718 381
Corporate and bank bonds	9 285 735	17 003 282
Total debt and other fixed income investments available-for-sale	**60 506 868**	**69 618 039**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	2 707	2 707
Total equity investments available-for-sale	**119 652**	**119 652**
Total available-for-sale securities	**60 626 520**	**69 737 691**

As at 31 December 2016 included in Russian Government bonds available-for-sale are securities sold under repurchase agreements in the amount of RUB 19 704 611 thousand (31 December 2015: Russian Government bonds in the amount of RUB 14 841 932 thousand) (see Notes 11, 16 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2016		31 December 2015	
	%	**Maturity**	**%**	**Maturity**
Russian Government Eurobonds	4.5-4.88%	2022-2026	4.5-4.88%	2022, 2023
Russian Government Bonds	6.2-8.15%	2017-2027	6.2-8.15%	2016-2028
Corporate and bank bonds	7.5-11.1%	2017-2027	7.5-13%	2016-2028
Corporate Eurobonds	-	-	4.95%	2016

As at 31 December 2016 there are no investments available-for-sale blocked as collateral for "overnight" loans with the CBR (31 December 2015: RUB 18 784 041 thousand). As at 31 December 2016 and 31 December 2015 the Group has no "overnight" loans with the CBR.

(Thousands of Russian Roubles)

10. Investment securities (continued)

In 2015 the Group acquired Russian government debt securities with the positive intent and ability to hold them to maturity. Additionally in 2016 the Group acquired USD denominated Russian government eurobonds with a nominal amount of USD 233 600 thousand. As at 31 December 2016, held-to-maturity securities comprise:

	31 December 2016		**31 December 2015**	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Russian government bonds, RUB denominated	15 000 000	15 935 005	15 000 000	16 130 748
Russian government eurobonds, USD denominated	14 169 452	14 982 265	-	-
Held-to-maturity securities	**29 169 452**	**30 917 270**	**15 000 000**	**16 130 748**

Nominal interest rates and maturities of these securities are as follows:

	31 December 2016		**31 December 2015**	
	%	**Maturity**	**%**	**Maturity**
Russian government bonds, RUB denominated	11.7%–11.9%	2020, 2025	14.42%-14.48%	2020, 2025
Russian government eurobonds, USD denominated	4.5%-4.88%	2022,2023	-	-

As at 31 December 2016 included in held-to-maturity Russian government bonds are securities sold under repurchase agreements in the amount of RUB 212 666 thousand (31 December 2015: none) (see Notes 11, 16 and 17 for details).

As at 31 December 2016 included in held-to-maturity securities are Russian government bonds blocked as collateral in order to receive "overnight" loans from the CBR in the amount of RUB 1 058 015 thousand (31 December 2015: RUB 12 903 281 thousand). As at 31 December 2016 and 31 December 2015 the Group has no "overnight" loans due to the CBR.

As at 31 December 2016 approximately 48% of debt and other fixed income investments available-for-sale and held-to-maturity were rated not lower than "BBB-" (31 December 2015: 66%).

11. Transfers of financial assets

The Group has transactions to sell securities classified as trading, available-for-sale and held-to-maturity under agreements to repurchase (see Notes 6, 10, 16 and 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in Notes 6 and 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions and customers (see Notes 16 and 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

(Thousands of Russian Roubles)

11. Transfers of financial assets (continued)

As at 31 December 2016 and 31 December 2015 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2016		31 December 2015	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Available-for-sale securities	19 704 611	18 325 881	14 841 932	13 428 975
Trading securities	1 251 058	1 139 562	-	-
Held to maturity	212 666	209 798	-	-
Total	**21 168 335**	**19 675 241**	**14 841 932**	**13 428 975**

As at 31 December 2016 and 31 December 2015 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2016		31 December 2015	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Government bonds	21 168 335	19 675 241	14 841 932	13 428 975
Total	**21 168 335**	**19 675 241**	**14 841 932**	**13 428 975**

12. Fixed assets

The movements in fixed assets were as follows:

	Buildings	**Computers and equipment**	**Other fixed assets**	**Total**
Cost				
1 January 2016	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Additions	-	230 510	39 574	270 084
Disposals	-	(355 610)	(121 055)	(476 665)
31 December 2016	**6 577 320**	**4 230 654**	**536 432**	**11 344 406**
Accumulated depreciation				
1 January 2016	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Depreciation charge	(225 082)	(388 755)	(23 767)	(637 604)
Disposals	-	353 558	85 421	438 979
31 December 2016	**(2 040 861)**	**(3 627 795)**	**(468 716)**	**(6 137 372)**
Net book value				
As at 31 December 2016	**4 536 459**	**602 859**	**67 716**	**5 207 034**

(Thousands of Russian Roubles)

12. Fixed assets (continued)

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2015	**6 577 320**	**4 187 516**	**608 946**	**11 373 782**
Additions	-	290 403	39 995	330 398
Disposals	-	(122 165)	(31 028)	(153 193)
31 December 2015	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Accumulated depreciation				
1 January 2015	**(1 590 697)**	**(3 254 881)**	**(526 840)**	**(5 372 418)**
Depreciation charge	(225 082)	(458 036)	(33 813)	(716 931)
Disposals	-	120 319	30 283	150 602
31 December 2015	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Net book value				
As at 31 December 2015	**4 761 541**	**763 156**	**87 543**	**5 612 240**

13. Intangible assets

The movements in intangible assets were as follows:

	2016	2015
Cost of intangible assets		
1 January	**9 249 353**	**6 463 743**
Additions of intangible assets	2 465 672	2 786 607
Disposals of intangible assets	(1 012 629)	(997)
31 December	**10 702 396**	**9 249 353**
Accumulated amortisation of intangible assets		
1 January	**(3 898 716)**	**(3 019 912)**
Amortisation charge of intangible assets	(1 223 895)	(879 794)
Disposals of intangible assets	930 764	990
31 December	**(4 191 847)**	**(3 898 716)**
Net book value of intangible assets		
As at 31 December	**6 510 549**	**5 350 637**

(Thousands of Russian Roubles)

14. Taxation

The corporate income tax expense comprises:

	2016	2015
Current tax charge	4 177 456	407 448
Deferred tax charge – (reversal) / origination of temporary differences	(598 661)	3 057 655
Income tax expense	**3 578 795**	**3 465 103**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2016 and 2015. The tax rate for interest income on state securities was 15% for 2016 and 2015.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2016	2015
Profit before tax	**17 602 046**	**18 983 097**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**3 520 409**	**3 796 619**
Effect of income taxed at lower tax rates	(230 456)	(166 368)
Non-deductible costs and other	288 842	(165 148)
Income tax expense	**3 578 795**	**3 465 103**

Deferred tax assets and liabilities as at 31 December 2016 and 31 December 2015 comprise:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Fixed and intangible assets	1 122 074	975 679	(2 419 143)	(2 404 594)	**(1 297 069)**	**(1 428 915)**
Trading securities and derivatives	5 839 175	2 333 917	(8 891 100)	(6 148 441)	**(3 051 925)**	**(3 814 524)**
Available-for-sale and held-to-maturity securities	-	624 303	(127 246)	-	**(127 246)**	**624 303**
Loan impairment and credit related commitments	1 707 823	1 205 338	(6 118 459)	(6 297 159)	**(4 410 636)**	**(5 091 821)**
Tax losses carried forward	-	1 436 353	-	-	**-**	**1 436 353**
Other items	1 313 823	883 988	-	-	**1 313 823**	**883 988**
Total deferred tax assets/ (liabilities)	**9 982 895**	**7 459 578**	**(17 555 948)**	**(14 850 194)**	**(7 573 053)**	**(7 390 616)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2016 is presented in the table below:

	1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2016
Fixed and intangible assets	(1 428 915)	131 846	-	**(1 297 069)**
Trading securities and derivatives	(3 814 524)	957 924	(195 325)	**(3 051 925)**
Available-for-sale and held-to-maturity securities	624 303	(165 776)	(585 773)	**(127 246)**
Loan impairment and credit related commitments	(5 091 821)	681 185	-	**(4 410 636)**
Tax losses carried forward	1 436 353	(1 436 353)	-	**-**
Other items	883 988	429 835	-	**1 313 823**
	(7 390 616)	**598 661**	**(781 098)**	**(7 573 053)**

(Thousands of Russian Roubles)

14. Taxation (continued)

Movement in deferred tax assets and liabilities during the year ended 31 December 2015 is presented in the table below:

	1 January 2015	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2015
Fixed and intangible assets	(959 313)	(469 602)	-	**(1 428 915)**
Trading securities and derivatives	(355 610)	(3 264 927)	(193 987)	**(3 814 524)**
Available-for-sale securities	2 267 557	(101 429)	(1 541 825)	**624 303**
Loan impairment and credit related commitments	(4 581 309)	(510 512)	-	**(5 091 821)**
Tax losses carried forward	-	1 436 353	-	**1 436 353**
Other items	1 031 526	(147 538)	-	**883 988**
	(2 597 149)	**(3 057 655)**	**(1 735 812)**	**(7 390 616)**

Tax effect relating to components of other comprehensive income comprises:

	2016			2015		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	976 624	(195 325)	781 299	969 934	(193 987)	775 947
Revaluation reserve for available-for-sale securities	2 928 865	(585 773)	2 343 092	7 709 123	(1 541 825)	6 167 298
Other comprehensive income	**3 905 489**	**(781 098)**	**3 124 391**	**8 679 057**	**(1 735 812)**	**6 943 245**

15. Other assets and liabilities

Other assets comprise:

	31 December 2016	31 December 2015
Advances, prepayments and deferred expenses	2 962 751	2 446 138
Accrued income other than income capitalised in related financial assets	667 856	577 314
Repossessed collateral	568 017	473 061
VAT receivables on leases	303 408	23 234
Other	1 275 322	926 096
Other assets	**5 777 354**	**4 445 843**

Other liabilities comprise:

	31 December 2016	31 December 2015
Accrued compensation expense	3 423 037	2 981 550
Accounts payable	3 070 680	2 867 976
Other provisions	808 386	185 348
Liability arising on initial designation of fair value macro hedge	690 083	840 271
Transit accounts	560 315	193 185
Deferred income	442 712	365 442
Taxes payables	316 688	237 086
Other	953 613	252 122
Other liabilities	**10 265 514**	**7 922 980**

(Thousands of Russian Roubles)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2016	31 December 2015
Current accounts	13 000 015	15 490 125
Time deposits and loans	90 394 448	114 574 175
Repurchase agreements with credit institutions (Note 11)	19 536 126	12 766 312
Subordinated debt (Note 19)	29 178 071	51 091 697
Amounts due to credit institutions	**152 108 660**	**193 922 309**

As at 31 December 2016, the ten largest deposits, excluding subordinated debt, represented 81% of total amounts due to credit institutions (31 December 2015: 79%).

As at 31 December 2016, the Group has one counterpartiy with aggregate balances that individually exceeded 10% of equity (31 December 2015: two counterparties). As at 31 December 2016, the aggregate amount of these balances is RUB 26 532 542 thousand (31 December 2015: RUB 55 732 422 thousand).

As at 31 December 2016 included in subordinated debt is subordinated deposit received from the sole Group's shareholder UniCredit S.p.A in the amount of USD 480 900 thousand with quarterly interest payments and maturity date in March 2025 (see Note 19 for details).

As at 31 December 2016 the Group has no term deposits due to the CBR (31 December 2015: RUB 38 292 939 thousand) which are secured by a pool of corporate loans (see Note 9 for details).

As at 31 December 2016 and 31 December 2015 the Group has no repurchase agreements with the CBR.

As at 31 December 2016 fair value of securities pledged under repurchase agreements with credit institutions is RUB 21 025 074 thousand (31 December 2015: RUB 14 145 980 thousand) (see Notes 6, 10, 11 and 27 for details).

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2016	31 December 2015
Current accounts	170 163 667	146 655 702
Time deposits	608 799 120	784 025 324
Repurchase agreements with customers (Note 11)	139 115	745 962
Amounts due to customers	**779 101 902**	**931 426 988**

As at 31 December 2016, approximately 51% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2015: 59%).

(Thousands of Russian Roubles)

17. Amounts due to customers (continued)

Analysis of customer accounts by type of customers is as follows:

	31 December 2016	31 December 2015
Corporate		
Current accounts	74 155 567	60 292 671
Time deposits	491 668 933	645 936 117
Repurchase agreements with customers (Note 11)	139 115	745 962
Total corporate accounts	**565 963 615**	**706 974 750**
Retail		
Current accounts	96 008 100	86 363 031
Time deposits	117 130 187	138 089 207
Total retail accounts	**213 138 287**	**224 452 238**
Amounts due to customers	**779 101 902**	**931 426 988**

Included in retail time deposits are deposits of individuals in the amount of RUB 100 940 451 thousand (31 December 2015: RUB 119 174 751 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 16 189 736 thousand (31 December 2015: RUB 18 914 456 thousand) is represented by deposits placed by SME.

As at 31 December 2016 fair value of debt securities pledged under repurchase agreements with customers is RUB 154 514 thousand (31 December 2015: RUB 695 952 thousand) (see Notes 6, 10, 11 and 27 for details).

18. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2016	Carrying value at 31 December 2015
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	12.35	4 136 680	4 133 989
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	9.20	2 323 635	10 082 110
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	46 710	60 838
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	818	192 057
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	3	2 839 802
UniCredit Bank, 01-IP	14.09.2011	07.09.2016	RUB	8.20	-	5 122 775
UniCredit Bank, BO-06	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-07	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-08	26.02.2013	23.02.2016	RUB	14.00	-	141 048
UniCredit Bank, BO-09	26.02.2013	23.02.2016	RUB	14.00	-	74 246
Debt securities issued					**6 507 846**	**32 979 085**

As at 31 December 2016 mortgage-backed bonds (UniCredit Bank, 02-IP) with the carrying value of RUB 4 136 680 thousand (31 December 2015: UniCredit Bank, 01-IP and UniCredit Bank, 02-IP with the carrying value of RUB 9 256 764 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 2 178 317 thousand (31 December 2015: RUB 7 541 188 thousand) and by cash in the amount of RUB 2 050 000 thousand (31 December 2015: RUB 2 050 000 thousand) (see Notes 5 and 9 for details).

(Thousands of Russian Roubles)

19. Subordinated debt

	31 December 2016	31 December 2015
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	29 178 071	35 059 691
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017	-	8 016 505
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018	-	8 015 501
Subordinated Debt	**29 178 071**	**51 091 697**

On 11th of July 2016 the Group took a decision to perform early repayment of subordinated loans for the total amount of EUR 201 205 thousand. The repayment amount included nominal amount of EUR 200 000 thousand as well as accrued interest of EUR 1 205 thousand (see Note 28 for details).

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

20. Shareholder's equity

As at 31 December 2016 and 31 December 2015, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

21. Commitments and contingencies

Credit related commitments and contingencies

	31 December 2016	31 December 2015
Guarantees issued	119 536 553	130 012 623
Undrawn loan commitments	85 116 393	124 924 548
Undrawn commitments to issue documentary instruments	80 833 286	-
Letters of credit	34 295 027	47 271 329
Gross credit related commitments and contingencies	**319 781 259**	**302 208 500**
Provisions for credit related commitments and contingencies	(369 951)	-
Total credit related commitments and contingencies	**319 411 308**	**302 208 500**

As at 31 December 2016 and 31 December 2015 undrawn loan commitments and undrawn commitments to issue documentary instruments are of revocable nature for which the Group does not undertake any substantial liability.

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2016, collateral deposits of RUB 8 019 170 thousand were held by the Group (31 December 2015: RUB 14 814 945 thousand). Most of guarantees issued and letters of credits are irrevocable payment undertakings by the Group.

(Thousands of Russian Roubles)

21. Commitments and contingencies (continued)

Operating lease commitments

	31 December 2016	31 December 2015
Not later than 1 year	829 381	874 122
Later than 1 year but not later than 5 years	2 443 105	2 074 433
Later than 5 years	76 611	143 543
	3 349 097	**3 092 098**

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Fiduciary activities*.* The Group also provides depositary services to its customers. As at 31 December 2016 and 31 December 2015, the Group had customer securities totaling 94 119 620 907 items and 84 428 551 717 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2016 the provision for legal proceedings in the amount of RUB 438 435 thousand (31 December 2015: RUB 185 348 thousand) was recognized in other liabilities in the consolidated statement of financial position.

22. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	2016	2015
Net gains from trading securities	22 056	261 203
Net gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	2 125 265	4 996 260
Gains on financial assets and liabilities held for trading	**2 147 321**	**5 257 463**

(Thousands of Russian Roubles)

23. Fee and commission income and expense

Fee and commission income comprises:

	2016	2015
Customer accounts handling and settlements	2 401 395	2 000 369
Documentary business	2 783 736	2 542 590
Retail services	2 639 438	2 953 618
Agent insurance fee	2 022 533	861 635
Loan fees that are not part of the effective interest rate	86 367	338 496
Other	10 665	7 368
Fee and commission income	**9 944 134**	**8 704 076**

Fee and commission expense comprises:

	2016	2015
Documentary business	(2 051 475)	(2 570 263)
Retail services	(1 021 588)	(952 432)
Accounts handling and settlements	(783 892)	(742 593)
Other	(110 671)	(59 408)
Fee and commission expense	**(3 967 626)**	**(4 324 696)**

24. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2016	2015
Salaries and bonuses	6 540 902	5 922 923
Social security costs	412 973	374 446
Other compensation expenses	177 227	117 609
Other employment taxes	1 616 477	1 378 040
Personnel expenses	**8 747 579**	**7 793 018**
Communication and information services	2 013 064	1 417 190
Rent, repairs and maintenance	1 388 422	1 545 984
Advertising and marketing	640 351	533 139
Security expenses	347 434	328 245
Insurance	186 342	156 065
Legal, audit and other professional services	151 643	143 424
Other taxes	115 607	106 557
Other	1 590 860	1 322 882
Other administrative expenses	**6 433 723**	**5 553 486**

25. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

(Thousands of Russian Roubles)

25. Capital management (continued)

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation No. 395-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016	31 December 2015
Core equity Tier I capital	138 363 187	126 934 767
Tier I capital	138 363 187	126 934 767
Additional capital	35 741 342	46 655 037
Total capital	**174 104 529**	**173 589 804**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The Capital adequacy ratios, computed in accordance with the CBR Regulation No. 139-I "Obligatory banking ratios", as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Total capital adequacy ratio H1.0 (minimum 8%)	16.2%	12.9%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	13%	9.5%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	13%	9.5%

Due to the introduction of restrictive political and economic measures affecting the situation in the financial markets, as well as to reduce the regulatory risks due to the volatility of the exchange rate, the CBR in December 2014 introduced a relief for the calculation of capital adequacy ratios and regulations.

In the calculation of capital, the Bank reclassified certain debt securities from available for sale category to held to maturity category at fair value prevailing as at 1 October 2014.

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2016, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel III and Basel II requirements as at 31 December 2016 and 31 December 2015 were as follows (unaudited):

	31 December 2016	31 December 2015
Core equity Tier 1 capital	161 937 692	141 889 980
Tier II capital	30 329 651	34 202 071
Total capital	**192 267 343**	**176 092 051**
Risk weighted assets	**998 461 998**	**1 369 639 149**
Core equity Tier 1 capital ratio	16.2%	10.4%
Total capital ratio	19.3%	12.9%

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the rules of development, agreement and approval of internal documents of the Bank. The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

26. Risk management (continued)

Credit risk governance**.** Credit risk management policies, procedures and manuals are approved by the Board of Management/Supervisory Board according to the procedure of Group rules implementation at the Bank.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 40 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the President of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/credit applications from corporate customers in the amount up to EUR 15 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (including) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (including) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.[1]

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

[1] The criteria are presented in accordance with the current "General credit policy of AO UniCredit Bank".

26. Risk management (continued)

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

(Thousands of Russian Roubles)

26. Risk management (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure as at 31 December 2016	Maximum gross exposure as at 31 December 2015
Cash and cash balances (excluding cash on hand)	5	46 080 894	8 374 378
Trading securities:	6		
- held by the Group		1 154 603	3 652 106
- pledged under repurchase agreements		1 251 058	-
Amounts due from credit institutions	7	269 500 170	336 744 808
Derivative financial assets	8	41 257 596	65 526 002
Derivative financial assets designated for hedging	8	12 738 828	7 042 056
Loans to customers	9	677 010 924	867 295 074
Investment securities:	10		
- available-for-sale			
- held by the Group		40 921 909	54 895 759
- pledged under repurchase agreements		19 704 611	14 841 932
-held to maturity			
- held by the Group		30 704 604	16 130 748
- pledged under repurchase agreements		212 666	-
Total		**1 140 537 863**	**1 374 502 863**
Financial commitments and contingencies	21	319 411 308	302 208 500
Total credit risk exposure		**1 459 949 171**	**1 676 711 363**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2016.

		Neither past due nor impaired			
	Notes	**High grade**	**Standard**	**Past due or impaired**	**Total**
Cash and cash balances (excluding cash on hand)	5	46 080 894	-	-	**46 080 894**
Trading securities:	6				
- held by the Group		1 154 603	-	-	**1 154 603**
- pledged under repurchase agreement		1 251 058	-	-	**1 251 058**
Amounts due from credit institutions	7	212 124 320	57 375 850	-	**269 500 170**
Derivative financial assets	8	23 765 802	17 491 794	-	**41 257 596**
Derivative financial assets designated for hedging	8	12 678 831	59 997	-	**12 738 828**
Loans to customers	9	271 524 001	380 996 607	24 490 316	**677 010 924**
Investment securities:	10				
- available for sale					
- held by the Group		39 950 394	971 515	-	**40 921 909**
- pledged under repurchase agreement		19 704 611	-	-	**19 704 611**
- held-to-maturity					
- held by the Group		30 704 604	-	-	**30 704 604**
- pledged under repurchase agreement		212 666	-	-	**212 666**
Total		**659 151 784**	**456 895 763**	**24 490 316**	**1 140 537 863**

(Thousands of Russian Roubles)

26. Risk management (continued)

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2015.

	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard	Past due or impaired	Total 2015
Cash and cash balances (excluding cash on hand)	5	8 374 378	-	-	**8 374 378**
Trading securities	6				
- held by the Group		3 337 071	315 035	-	**3 652 106**
Amounts due from credit institutions	7	315 610 217	21 134 591	-	**336 744 808**
Derivative financial assets	8	40 686 232	24 839 770	-	**65 526 002**
Derivative financial assets designated for hedging	8	7 042 056	-	-	**7 042 056**
Loans to customers	9	283 087 599	546 776 521	37 430 954	**867 295 074**
Investment securities:	10				
- available for sale					
- held by the Group		44 539 196	10 356 563	-	**54 895 759**
- pledged under repurchase agreement		14 841 932	-	-	**14 841 932**
- held-to-maturity		16 130 748	-	-	**16 130 748**
Total		**733 649 429**	**603 422 480**	**37 430 954**	**1 374 502 863**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called "Investment grade" in accordance with the UniCredit Group methodology).

As at 31 December 2016, 46% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody's, S&P, Fitch) (31 December 2015: 54%). As at 31 December 2016, 54% of the exposures (31 December 2015: 46%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2016 and 31 December 2015 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

(Thousands of Russian Roubles)

26. Risk management (continued)

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.
2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on daily basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.
3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on local approach to cash flow model.
4. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.
5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Market risks performs daily N26 estimation.

As at 31 December 2016 and 31 December 2015, these ratios were as follows:

	2016,%	2015,%
N2 "Instant liquidity Ratio" (minimum 15%)	144.1	107.5
N3 "Current Liquidity Ratio" (minimum 50%)	219.8	282.7
N4 "Long-Term Liquidity Ratio" (maximum 120%)	59.2	65.6
N26 ""Liquidity Coverage Ratio"(minimum 70%)	76.3	108.2

(Thousands of Russian Roubles)

26. Risk management (continued)

The following tables shows the liquidity gap profile as at 31 December 2016 and 31 December 2015. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) and term deposts with autoprolongation are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates. This information is used internally for risk management purposes and differs from financial statement amounts.

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2016:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	58 588 565	-	-	-	-	-	-	**58 588 565**
Trading securities	-	-	-	-	335 872	2 069 789	-	**2 405 661**
Amounts due from credit institutions	119 386 397	5 500 000	3 507 682	37 146 221	100 990 308	-	-	**266 530 608**
Loans to customers	29 327 781	35 043 569	51 490 110	101 550 897	308 419 855	156 623 964	-	**682 456 176**
Investment securities:								
- available-for-sale	-	498 900	2 782 347	498 650	11 009 241	45 837 382	-	**60 626 520**
- held-to-maturity	-	-	-	-	-	30 917 270	-	**30 917 270**
Fixed assets	-	-	-	-	-	-	5 207 034	**5 207 034**
Other assets	-	-	-	67 993 629	-	-	-	**67 993 629**
Total assets	**207 302 743**	**41 042 469**	**57 780 139**	**207 189 397**	**420 755 276**	**235 448 405**	**5 207 034**	**1 174 725 463**
Liabilities								
Amounts due to credit institutions	99 014 043	10 864 874	1 286 179	2 965 291	3 342 810	35 339 397	-	**152 812 594**
Amounts due to customers:								
- current accounts	75 119 795	18 161 438	15 714 700	19 129 276	22 527 006	19 342 311	-	**169 994 526**
- time deposits	170 321 478	55 319 103	56 648 078	48 302 483	248 314 915	29 984 330	-	**608 890 387**
Debt securities issued	160 909	-	-	-	6 346 937	-	-	**6 507 846**
Other liabilities	54 845 205	-	-	-	-	-		**54 845 205**
Equity	-	-	-	-	-	-	181 674 905	**181 674 905**
Total liabilities and equity	**399 461 430**	**84 345 415**	**73 648 957**	**70 397 050**	**280 531 668**	**84 666 038**	**181 674 905**	**1 174 725 463**
Net position	**(192 158 687)**	**(43 302 946)**	**(15 868 818)**	**136 792 347**	**140 223 608**	**150 782 367**	**(176 467 871)**	**-**
Accumulated gap	**(192 158 687)**	**(235 461 633)**	**(251 330 451)**	**(114 538 104)**	**25 685 504**	**176 467 871**	**-**	

As shown in the table above, as at 31 December 2016 there is a negative accumulated liquidity gap in 1 month to 1 year periods. The maximum negative accumulated gap in 3 to 6 months period is explained by significant amount of short-term and demand deposits in liabilities.

(Thousands of Russian Roubles)

26. Risk management (continued)

The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group's participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 275 469 876 thousand.

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2015:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	22 742 000	-	-	-	-	-	-	**22 742 000**
Trading securities	-	2 391 205	-	-	319 228	940 854	-	**3 651 287**
Amounts due from credit institutions	134 386 001	-	45 788 553	38 441 350	88 959 240	29 153 080	-	**336 728 224**
Loans to customers	280 853 675	45 388 165	58 291 514	150 524 209	184 873 087	146 430 490	-	**866 361 140**
Investment securities:								
- available-for-sale	613 583	3 109 068	1 180 184	685 084	9 924 377	54 225 395	-	**69 737 691**
- held-to-maturity	-	-	-	-	-	16 130 748	-	**16 130 748**
Fixed assets	-	-	-	-	-	-	5 608 081	**5 608 081**
Other assets	-	-	-	85 222 178	-	-	-	**85 222 178**
Total assets	**438 595 259**	**50 888 438**	**105 260 251**	**274 872 821**	**284 075 932**	**246 880 567**	**5 608 081**	**1 406 181 349**
Liabilities								
Amounts due to credit institutions	79 492 522	39 110 070	10 226 373	1 263 268	28 517 436	35 700 460	-	**194 310 129**
Amounts due to customers:								
- current accounts	36 132 105	15 288 074	11 532 588	12 275 411	19 186 264	51 660 882	-	**146 075 324**
- time deposits	154 051 002	41 007 088	83 213 767	134 234 160	300 809 483	71 702 383	-	**785 017 883**
Debt securities issued	719 779	10 205 218	189 818	17 868 426	4 000 000	-	-	**32 983 241**
Other liabilities	83 267 509	-	-	-	-	-	-	**83 267 509**
Equity	-	-	-	-	-	-	164 527 263	**164 527 263**
Total liabilities and equity	**353 662 917**	**105 610 450**	**105 162 546**	**165 641 265**	**352 513 183**	**159 063 725**	**164 527 263**	**1 406 181 349**
Net position	**84 932 342**	**(54 722 012)**	**97 705**	**109 231 556**	**(68 437 251)**	**87 816 842**	**(158 919 182)**	**-**
Accumulated gap	**84 932 342**	**30 210 330**	**30 308 035**	**139 539 591**	**71 102 340**	**158 919 182**	**-**	

(Thousands of Russian Roubles)

26. Risk management (continued)

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	**1 month to 3 months**	**3 months to 6 months**	**6 to 12 months**	**1 year to 3 years**	**More than 3 years**	**Total**
Financial assets as at 31 December 2016							
Cash and cash balances	58 588 565	-	-	-	-	-	**58 588 565**
Trading securities							
- held by the Group	1 154 603	-	-	-	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058						**1 251 058**
Amounts due from credit institutions	121 557 508	6 593 777	6 565 215	36 827 447	106 087 190	60 672	**277 691 809**
Derivative financial assets:							
- Contractual amounts payable	(9 926 046)	(9 560 101)	(7 618 834)	(14 093 015)	(92 363 494)	(1 552 809)	**(135 114 299)**
- Contractual amounts receivable	10 476 859	12 863 892	9 117 673	20 885 865	122 945 698	3 761 760	**180 051 747**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(649 669)	(2 482 220)	(42 351 067)	(4 277 357)	(60 887 219)	(8 903 456)	**(119 550 988)**
- Contractual amounts receivable	1 471 828	3 902 693	48 516 136	6 500 284	69 839 473	10 133 246	**140 363 660**
Loans to customers	36 582 980	40 360 774	59 346 768	117 632 283	278 456 771	311 109 387	**843 488 963**
Investment securities:							
available-for-sale							
- held by the Group	79 259	1 415 435	2 067 183	1 365 966	12 080 509	37 722 725	**54 731 077**
- pledged under repurchase agreements	31 791	385 068	1 623 454	688 531	4 817 328	21 942 373	**29 488 545**
held-to-maturity							
- held by the Group	-	1 007 938	192 161	1 200 099	4 800 396	36 230 456	**43 431 050**
- pledged under repurchase agreements	-	11 868	-	11 868	47 472	330 548	**401 756**
Total undiscounted financial assets	**220 618 736**	**54 499 124**	**77 458 689**	**166 741 971**	**445 824 124**	**410 834 902**	**1 375 977 546**
Financial liabilities as at 31 December 2016							
Amounts due to credit institutions	101 907 138	13 026 833	3 445 055	7 805 056	18 440 912	47 855 749	**192 480 743**
FInancial iabilities held for trading	4 344 152	-	-	-	-	-	**4 344 152**
Derivative financial liabilities:							
- Contractual amounts payable	30 248 895	14 042 785	10 958 916	9 683 034	27 285 769	7 448 842	**99 668 241**
- Contractual amounts receivable	(29 202 541)	(11 885 597)	(6 412 398)	(8 570 535)	(20 651 948)	(4 985 558)	**(81 708 577)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	524 802	2 446 724	6 639 705	11 372 157	29 642 826	4 418 743	**55 044 957**
- Contractual amounts receivable	(1 271 790)	(2 030 533)	(2 983 893)	(8 127 602)	(24 969 823)	(2 678 148)	**(42 061 789)**
Amounts due to customers	313 302 672	61 166 648	62 101 253	60 565 182	270 645 174	7 487 754	**775 268 683**
Debt securities issued	-	249 030	105 883	354 913	7 060 860	-	**7 770 686**
Total undiscounted financial liabilities	**419 853 328**	**77 015 890**	**73 854 521**	**73 082 205**	**307 453 770**	**59 547 382**	**1 010 807 096**

(Thousands of Russian Roubles)

26. Risk management (continued)

The maturity profile of the financial assets and liabilities at 31 December 2015 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2015							
Cash and cash balances	22 730 813	-	-	-	-	-	**22 730 813**
Trading securities							
- held by the Group	3 652 106	-	-	-	-	-	**3 652 106**
Amounts due from credit institutions	164 022 504	482 224	15 949 036	41 216 391	100 167 119	33 139 833	**354 977 107**
Derivative financial assets:							
- Contractual amounts payable	(9 382 522)	(25 266 950)	(6 265 613)	(12 493 570)	(31 991 727)	(22 570 894)	**(107 971 276)**
- Contractual amounts receivable	9 599 093	27 106 928	11 432 221	20 887 047	57 540 996	44 120 104	**170 686 389**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(997 774)	(6 254 920)	(1 732 887)	(9 002 645)	(20 896 099)	(23 946 255)	**(62 830 580)**
- Contractual amounts receivable	1 660 654	8 618 387	3 154 509	10 087 598	22 974 397	25 337 056	**71 832 601**
Loans to customers	31 032 345	45 914 935	80 611 584	145 242 159	268 026 260	485 542 563	**1 056 369 846**
Investment securities:							
available-for-sale							
- held by the Group	230 136	3 973 526	2 191 529	2 376 912	15 936 653	50 902 829	**75 611 585**
- pledged under repurchase agreements	484 373	484 598	62 364	752 282	2 862 603	21 902 381	**26 548 601**
held-to-maturity	-	1 080 750	-	1 080 750	4 323 000	23 657 250	**30 141 750**
Total undiscounted financial assets	**223 031 728**	**56 139 478**	**105 402 743**	**200 146 924**	**418 943 202**	**638 084 867**	**1 641 748 942**
Financial liabilities as at 31 December 2015							
Amounts due to credit institutions	88 162 743	40 468 335	2 869 496	3 458 906	36 801 697	59 090 584	**230 851 761**
Derivative financial liabilities:							
- Contractual amounts payable	14 686 632	41 581 806	14 603 782	44 044 562	69 194 159	10 118 536	**194 229 477**
- Contractual amounts receivable	(11 326 124)	(39 617 146)	(9 845 824)	(30 473 403)	(57 177 103)	(5 715 180)	**(154 154 780)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	545 377	8 998 862	5 446 343	36 616 517	35 475 374	5 306 194	**92 388 667**
- Contractual amounts receivable	(1 722 582)	(6 613 744)	(3 059 846)	(31 372 979)	(27 276 428)	(3 218 373)	**(73 263 952)**
Amounts due to customers	266 981 977	49 224 935	90 889 675	147 604 409	317 798 375	78 939 162	**951 438 533**
Debt securities issued	-	11 104 650	566 003	6 021 070	13 264 281	4 364 418	**35 320 422**
Total undiscounted financial liabilities	**357 328 023**	**105 147 698**	**101 469 629**	**175 899 082**	**388 080 355**	**148 885 341**	**1 276 810 128**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

(Thousands of Russian Roubles)

26. Risk management (continued)

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 17).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2016	25 356 922	23 688 878	36 507 699	48 549 038	135 890 008	49 418 763	**319 411 308**
2015	11 688 510	22 657 301	45 689 107	64 418 564	128 772 488	28 982 530	**302 208 500**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes four market risk categories:

1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:

1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

26. Risk management (continued)

Starting from 2014, the Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:

- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Total SVaR limit for the trading portfolio;
- IRC limit for total bond position;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, local ALCO sets limits for BPV by timeband and business segment (ALM and Markets) and VaR warning levels for subportfolios.

Usage of VaR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment. On a daily basis MRU performs stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new system also enables to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

In 2015-2016 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

(Thousands of Russian Roubles)

26. Risk management (continued)

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Group applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Group has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

***Objectives and limitation of VaR methodology (unaudited)*.** The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

***Computational results (unaudited)*.** The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2016	**2015**
Total VaR	1 032 729	1 803 975
Interest Rate VaR	610 026	1 427 374
Spread VaR	810 958	1 728 019
Foreign exchange VaR	5 614	19 295

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

(Thousands of Russian Roubles)

26. Risk management (continued)

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2016	2015
Total VaR	1 085 016	1 782 603
Interest Rate VaR	587 246	1 395 248
Spread -VaR[1]	882 000	1 702 358

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2016	2015
Total VaR	83 037	230 752
Interest Rate VaR	55 414	214 123
Spread VaR	62 795	26 654
Foreign exchange VaR	5 614	19 295

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

(Thousands of Russian Roubles)

26. Risk management (continued)

The Group's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	RUB	USD	EUR	Other currencies	2016
Non-derivative financial assets					
Cash and cash equivalents	52 213 157	2 897 125	3 319 048	159 235	**58 588 565**
Trading securities - held by the Group	1 153 597	1 006	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058	-	-	-	**1 251 058**
Amounts due from credit institutions	46 333 225	208 636 535	12 060 344	2 470 066	**269 500 170**
Loans to customers	343 340 471	292 184 295	41 354 088	132 070	**677 010 924**
Investments available-for-sale					
- held by the Group	24 670 907	16 248 295	2 707	-	**40 921 909**
- pledged under repurchase agreements	19 704 611	-	-	-	**19 704 611**
Investments held to maturity					
- held by the Group	15 722 339	14 982 265	-	-	**30 704 604**
- pledged under repurchase agreements	212 666	-	-	-	**212 666**
Total non-derivative financial assets	**504 602 031**	**534 949 521**	**56 736 187**	**2 761 371**	**1 099 049 110**
Non-derivative financial liabilities					
Amounts due to credit institutions	109 018 800	36 383 738	6 289 000	417 122	**152 108 660**
Financial iabilities held for trading	4 344 152	-	-	-	**4 344 152**
Amounts due to customers	254 513 236	462 749 236	57 617 324	4 222 106	**779 101 902**
Debt securities issued	6 507 846	-	-	-	**6 507 846**
Total non-derivative financial liabilities	**374 384 034**	**499 132 974**	**63 906 324**	**4 639 228**	**942 062 560**
OPEN BALANCE SHEET POSITION	**130 217 997**	**35 816 547**	**(7 170 137)**	**(1 877 857)**	**156 986 550**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**51 933 206**	**(36 490 879)**	**7 543 904**	**1 814 319**	**24 800 550**
OPEN POSITION	**182 151 203**	**(674 332)**	**373 767**	**(63 538)**	**181 787 100**

The Group's exposure to foreign currency exchange rate risk as at 31 December 2015 is presented in the table below:

	RUB	USD	EUR	Other currencies	2015
Non-derivative financial assets					
Cash and cash equivalents	15 232 189	4 127 629	3 203 335	167 660	**22 730 813**
Trading securities held by the Group	3 644 969	7 137	-	-	**3 652 106**
Amounts due from credit institutions	83 039 777	226 358 428	25 827 168	1 519 435	**336 744 808**
Loans to customers	347 775 761	459 340 629	59 923 387	255 297	**867 295 074**
Investments available-for-sale					
- held by the Group	36 996 676	17 896 376	2 707	-	**54 895 759**
- pledged under repurchase agreements	14 841 932	-	-	-	**14 841 932**
Investments held to maturity held by the Group	16 130 748	-	-	-	**16 130 748**
Total non-derivative **financial assets**	**517 662 052**	**707 730 199**	**88 956 597**	**1 942 392**	**1 316 291 240**
Non-derivative financial liabilities					
Amounts due to credit institutions	100 462 841	66 905 269	26 510 650	43 549	**193 922 309**
Amounts due to customers	238 905 597	624 494 699	64 043 911	3 982 781	**931 426 988**
Debt securities issued	32 979 085	-	-	-	**32 979 085**
Total non-derivative **financial liabilities**	**372 347 523**	**691 399 968**	**90 554 561**	**4 026 330**	**1 158 328 382**
OPEN BALANCE SHEET POSITION	**145 314 529**	**16 330 231**	**(1 597 964)**	**(2 083 938)**	**157 962 858**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**20 400 593**	**(18 588 527)**	**172 168**	**2 031 663**	**4 015 897**
OPEN POSITION	**165 715 122**	**(2 258 296)**	**(1 425 796)**	**(52 275)**	**161 978 755**

(Thousands of Russian Roubles)

26. Risk management (continued)

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2016 impact	2015 impact
USD strengthening by 10%	(67 433)	(225 830)
USD weakening by 10%	67 433	225 830
EUR strengthening by 10%	37 377	(142 580)
EUR weakening by 10%	(37 377)	142 580

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

Operational risk

***Operational risk definition and risk management principles*.** The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

26. Risk management (continued)

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group’s business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – “ORM Unit”) performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit’s main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- operational risk indicators;
- scenario analysis;
- ELOR monitoring;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit and Organization Department.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

27. Fair values of financial instruments

Fair value is defined as 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 values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deals as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency and risk product (asset or liability).

  In accordance with the Group methodology discount factors include:

  - for assets: Risk free rate + expected loss + unexpected loss;
  - for liabilities: Risk free rate + own credit spread (liquidity spreads).

(Thousands of Russian Roubles)

27. Fair values of financial instruments (continued)

- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value valuation of derivative instruments is based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value. For the purpose of calculation fair value of financial instruments the Group applies ratios calculated by UniCredit Bank Austria AG.

	31 December 2016		31 December 2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	269 500 170	267 787 810	336 744 808	321 744 421
Loans to customers	677 010 924	692 396 971	867 295 074	885 729 267
Investment securities held-to-maturity				
- held by the Group	30 704 604	31 241 702	16 130 748	16 305 248
- pledged under repurchased agreements	212 666	223 919	-	-
Financial liabilities				
Amounts due to credit institutions	152 108 660	172 195 958	193 922 309	211 690 450
Amounts due to customers	779 101 902	792 735 879	931 426 988	944 180 736
Debt securities issued	6 507 846	6 701 406	32 979 085	32 582 136

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	267 787 810	267 787 810
Loans to customers	-	-	692 396 971	692 396 971
Investment securities held-to-maturity:				
- held by the Group	14 945 933	16 295 769	-	31 241 702
- pledged under repurchased agreements	-	223 919	-	223 919
Financial liabilities				
Amounts due to credit institutions	-	-	172 195 958	172 195 958
Amounts due to customers	-	-	792 735 879	792 735 879
Debt securities issued	-	6 701 406	-	6 701 406

(Thousands of Russian Roubles)

27. Fair values of financial instruments (continued)

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	321 744 421	321 744 421
Loans to customers	-	-	885 729 267	885 729 267
Investment securities held-to-maturity, held by the Group	8 128 470	8 176 778	-	16 305 248
Financial liabilities				
Amounts due to credit institutions	-	-	211 690 450	211 690 450
Amounts due to customers	-	-	944 180 736	944 180 736
Debt securities issued	-	32 582 136	-	32 582 136

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites:				
- held by the Group	1 006	1 153 597	-	1 154 603
- pledged under repurchase agreements	-	1 251 058	-	1 251 058
Derivative financial assets	-	41 257 596	-	41 257 596
Derivative financial assets designated for hedging	-	12 738 828	-	12 738 828
Investment securities available-for-sale:				
- held by the Group	31 516 523	9 285 734	-	40 802 257
- pledged under repurchase agreements	19 704 611	-	-	19 704 611
Total	**51 222 140**	**65 686 813**	**-**	**116 908 953**
Financial liabilities at FVTPL				
Financial liabilities held for trading	221 162	4 122 990	-	4 344 152
Derivative financial liabilities	-	16 857 167	-	16 857 167
Derivative financial liabilities designated for hedging	-	12 338 707	-	12 338 707
Total	**221 162**	**33 318 864**	**-**	**33 540 026**

(Thousands of Russian Roubles)

27. Fair values of financial instruments (continued)

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites:				
- held by the Group	437 860	3 214 246	-	3 652 106
Derivative financial assets	-	65 526 002	-	65 526 002
Derivative financial assets designated for hedging	-	7 042 056	-	7 042 056
Investment securities available-for-sale:				
- held by the Group	36 936 733	17 839 374	-	54 776 107
- pledged under repurchase agreements	14 390 682	451 250	-	14 841 932
Total	**51 765 275**	**94 072 928**	**-**	**145 838 203**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	49 246 075	-	49 246 075
Derivative financial liabilities designated for hedging	-	19 306 086	-	19 306 086
Total	**-**	**68 552 161**	**-**	**68 552 161**

The table above does not include available-for-sale equity investments of RUB 119 652 thousand (31 December 2015: RUB 119 652 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

During the year ended 31 December 2016 there were no transfers for available-for-sale securities (2015: transfers from level 1 to level 2 amounted to RUB 451 851 thousand and transfers from level 2 to level 1 amounted to RUB 2 183 088 thousand). During the year ended 31 December 2016 and 31 December 2015 there were no transfers for trading securities.

28. Related party disclosures

As at 31 December 2016 the sole shareholder of the Group is UniCredit S.p.A. (see Note 1 for details).

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

As stated before, 1 October 2016 the reorganization of UniCredit Group Division responsible for the Central and Eastern Europe has been successfully completed. Under this reorganization the immediate parent of the Group has changed from UniCredit Bank Austria AG to UniCredit S.p.A. Thus, the balances and transactions with UniCredit Bank Austria AG as at and for the year ended 31 December 2015 are disclosed as balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group for comparative purposes.

(Thousands of Russian Roubles)

28. Related party disclosures (continued)

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2016	Weighted average interest rate, %	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In EUR	723 315	0.0%	339 737	0.0%
- In USD	129 316 571	3.7%	-	
Derivative financial assets	2 553 939		-	
Derivative financial assets designated for hedging	9 806 496		-	
Other assets	9 600		9 570	
Amounts due to credit institutions				
- In Russian Roubles	4 570 874	8.9%	1 976 965	9.7%
- In EUR	851 613	0.0%	914 340	0.0%
- In USD	29 178 071	10.9%	-	
Derivative financial liabilities	1 815 514		-	
Derivative financial liabilities designated for hedging	825 002		-	
Other liabilities	566 535		408 948	
Commitments and guarantees issued	3 655 456		973 110	
Commitments and guarantees received	54 328 186		226 780	

	2016	2015
Interest income	15 313 998	-
Interest expense	(4 187 292)	(114 731)
Fee and commission income	26 466	9 982
Fee and commission expense	(1 980 791)	(22 905)
Gains on financial assets and liabilities held for trading	6 739 107	-
Fair value adjustments in portfolio hedge accounting	(57 591)	-
Recovery of personnel expenses / (personnel expenses)	49 495	(94 909)
Other administrative costs	(61 169)	(117 309)

(Thousands of Russian Roubles)

28. Related party disclosures (continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2016	Weighted average interest rate, %	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	14 408 535	11.8%	12 596 181	14.2%
- In EUR	10 233 164	0.0%	10 787 938	0.4%
- In USD	920 582	3.2%	212 121 190	3.1%
- In other currencies	2 530	0.0%	4 822	0.0%
Derivative financial assets	1 121 258		7 557 519	
Derivative financial assets designated for hedging	2 230 501		5 064 363	
Loans to customers				
- In Russian Roubles	1 073 115	5.0%	864 197	5.0%
Intangible assets	793 973		1 175 070	
Other assets	191 086		123 726	
Amounts due to credit institutions				
- In Russian Roubles	7 670 387	6.2%	5 599 611	8.5%
- In EUR	4 859 639	1.4%	24 599 556	1.6%
- In USD	5 676 402	2.5%	46 788 650	8.5%
- In other currencies	399	0.0%	1 413	0.0%
Derivative financial liabilities	7 623 102		23 959 638	
Derivative financial liabilities designated for hedging	3 889 376		11 636 441	
Amounts due to customers				
- In Russian Roubles	338 307	9.0%	10 867	8.6%
- In EUR	148 513	0.0%	332 508	0.0%
Other liabilities	1 318 124		1 034 586	
Commitments and guarantees issued	9 504 684		17 967 981	
Commitments and guarantees received	3 556 535		98 286 044	

	2016	2015
Interest income	6 522 342	19 549 518
Interest expense	(4 000 492)	(8 081 526)
Fee and commission income	141 090	100 969
Fee and commission expense	(160 726)	(2 579 549)
Gains /(losses) on financial assets and liabilities held for trading	2 403 390	(8 455 294)
Fair value adjustments in portfolio hedge accounting	(2 388 672)	(3 399 567)
Other income	485	443
(Personnel expenses) / recovery of personnel expenses	(30 283)	34 213
Other administrative expenses	(218 538)	(112 681)

(Thousands of Russian Roubles)

28. Related party disclosures (continued)

Balances and transactions with key management personnel are as follows:

	31 December 2016	31 December 2015
Amounts due to customers	312 193	296 028
Other liabilities	43 531	22 018

	2016	2015
Interest expense	(15 021)	(11 360)
Personnel expenses, including:	(294 759)	(312 530)
short-term benefits	(200 648)	(163 236)
long-term benefits	(92 308)	(148 146)
post-employment benefits	(1 803)	(1 148)

Subordinated loans from the members of the UniCredit Group were as follows for 2016 and 2015:

	2016 UniCredit Bank S.p.A	2015 UniCredit Bank Austria AG
Subordinated loans at the beginning of the year	51 091 697	13 753 224
Subordinated debt repaid during the year	(14 233 680)	-
Subordinated debt received during the year	-	27 761 347
Accrual of interest, net of interest paid	(94 799)	18 283
Effect of exchange rates changes	(7 585 147)	9 558 843
Subordinated loans at the end of the year	**29 178 071**	**51 091 697**

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