China Construction Bank (Russia) Limited

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Notes to the Financial Statements

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Independent Auditor's Report

To the Participant and Board of Directors of China Construction Bank (Russia) Limited:

Report on the audit of the financial statements

Our opinion

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

What we have audited

The financial statements of the Bank comprise:

- the statement of financial position as at 31 December 2016;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 section *"Auditor's responsibilities for the audit of the financial statements"* of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

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

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year 2016:

- compliance of the Bank as at 1 January 2017 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Bank with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on the examination:

1) as related to compliance of the Bank with the statutory ratios set by the Bank of Russia:

   as at 1 January 2017 the Bank's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia, except for a statutory ratio N6 "Maximum level of exposure per borrower or group of related borrowers" (N6).

   The bank violated the statutory ratio N6 for five business days from December 27, 2016 to January 1, 2017 with an upper bound, comprised 28.3% when the permitted upper bound is 25.0%. Since January 9, 2017, and to date, the Bank has no violations of the ratio N6. The Bank has strengthened control over the accounting of transactions, introduced subsequent control by an independent department for reconciling accounting data and primary documents.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

2) as related to compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems:

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2017 subdivisions of the Bank for managing significant risks of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documents of the Bank effective as at 1 January 2017 which set out the methodologies to identify and manage significant credit, operational, market, interest rate and liquidity risks and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 1 January 2017 the Bank had in place a reporting system for significant credit, operational, market, interest rate and liquidity risks and for equity (capital) of the Bank;

d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2016 as related to management of credit, operational, market, interest rate and liquidity risks complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Bank as well as recommendations on their improvement;

e) as at 1 January 2017 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2016, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Bank solely to examine compliance of internal control and risk management systems of the Bank with the Bank of Russia's requirements for such systems.

АО "ПвК Аудит"

14 April 2017

Moscow, Russian Federation

N.V. Kosova, certified auditor (licence no. 01-000396), AO PricewaterhouseCoopers Audit

Audited entity: China Construction Bank (Russia) Limited

State registration certificate № 3515, issued by Central Bank of Russia on 4 March 2013.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 March 2013 under registration №1137711000030 dated 4 March 2013.

1 bld., 11/1, Lubyanskiy proezd, 101000, Moscow, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit.

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

ORNZ 11603050547 in the register of auditors and audit organizations.

In thousands of Russian Roubles	**Note**	**31 December 2016**	**31 December 2015**
ASSETS			
Cash and cash equivalents	7	18 330 082	8 325 908
Mandatory cash balances with the Central Bank of the Russian Federation		155 673	203 727
Due from other banks	8	440 874	2 836 686
Loans and advances to customers	9	5 555 777	8 687 491
Deferred income tax asset	19	7 933	9 264
Intangible assets	10	25 863	20 452
Premises and equipment	10	31 188	40 671
Other financial assets		2 326	486
Other assets	11	19 323	17 257
TOTAL ASSETS		**24 569 039**	**20 141 942**
LIABILITIES			
Due to other banks	12	1 062 739	4 289 758
Customer accounts	13	18 081 439	10 874 795
Other financial and non-financial liabilities	14	48 587	30 718
Current income tax liability		13 511	7 178
TOTAL LIABILITIES		**19 206 276**	**15 202 449**
EQUITY			
Share capital	15	4 200 000	4 200 000
Retained earnings		1 162 763	739 493
TOTAL EQUITY		**5 362 763**	**4 939 493**
TOTAL LIABILITIES AND EQUITY		**24 569 039**	**20 141 942**

Approved for issue and signed on 14 April 2017.

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Liu Wenyong
Acting Chairman of the Management Board

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Anna Viola
Chief Accountant

The notes set out on pages 5 to 44 form an integral part of these financial statements.

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Interest income	16	1 108 747	931 178
Interest expense	16	(312 836)	(212 370)
Net interest income		**795 911**	**718 808**
Fee and commission income	17	71 404	33 372
Fee and commission expense	17	(13 696)	(4 811)
Losses net of gains from financial derivatives		34 712	(118 475)
Foreign exchange translation gains less losses		(44 516)	112 810
Gains less losses from trading in foreign currencies		1 203	137 512
Administrative and other operating expense	18	(361 189)	(316 752)
Other operating income		58 597	51 740
Profit before tax		**542 426**	**614 204**
Income tax expense	19	(119 156)	(142 391)
Profit for the year		**423 270**	**471 813**
Total comprehensive income for the year		**423 270**	**471 813**

In thousands of Russian Roubles	**Share capital**	**Retained earnings**	**Total**
Balance at 1 January 2015	**4 200 000**	**267 680**	**4 467 680**
Profit for the year	-	471 813	471 813
Balance at 31 December 2015	**4 200 000**	**739 493**	**4 939 493**
Profit for the year		423 270	423 270
Balance at 31 December 2016	**4 200 000**	**1 162 763**	**5 362 763**

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Interest received		1 088 811	923 950
Interest paid		(263 469)	(218 112)
Fees and commissions received		76 145	33 372
Fees and commissions paid		(13 696)	(4 811)
Losses net of gains from financial derivatives		50 294	(117 411)
Gains less losses from trading in foreign currencies		1 203	137 512
Other operating income received		58 597	51 740
Staff costs paid		(269 951)	(215 793)
Administrative and other operating expenses paid		(79 938)	(81 046)
Income tax paid		(111 492)	(139 139)
Cash flows from operating activities before changes in operating assets and liabilities		**536 504**	**370 262**
Change in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank		48 054	(62 911)
Net increase in due from other banks		2 051 281	(182 015)
Net decrease in loans and advances to customers		2 138 166	59 151
Net increase in other assets		(2 876)	(12 082)
Net decrease in due to other banks		(2 575 215)	(10 005 238)
Net increase in customer accounts		8 069 043	4 826 942
Net increase in other liabilities		(3 139)	12 050
Net cash used in operating activities		**10 261 818**	**(4 993 841)**
Cash flows from investing activities			
Acquisition of investment securities held to maturity			(429 794)
Proceeds from redemption of investment securities held to maturity			360 898
Acquisition of premises and equipment	10	(714)	(34 150)
Acquisition of intangible assets	10	(5 478)	(3 188)
Net cash used in investing activities		**(6 192)**	**(106 234)**
Effect of exchange rate changes on cash and cash equivalents		**(251 452)**	**2 625 003**
Net decrease in cash and cash equivalents		**10 004 174**	**(2 475 072)**
Cash and cash equivalents at the beginning of the year		8 325 908	10 800 980
Cash and cash equivalents at the end of the year	7	**18 330 082**	**8 325 908**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for China Construction Bank (Russia) Limited (the “Bank”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a limited liability company and was set up in accordance with Russian regulations on 4 March 2013.

The Bank is a 100% subsidiary of China Construction Bank Corporation, whose ultimate owners include the Ministry of Finance and the Government of the People’s Republic of China (hereinafter,– the “Parent Bank”). The Parent Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the People’s Republic of China.

The Bank has been operating under a full banking licence issued by the Central Bank of the Russian Federation (“CB RF”) on 9 November 2015, a licence for attracting and placing deposits of precious metals issued by the Central Bank of the Russian Federation on 24 May 2016 and a license of a professional securities market participant for carrying out dealer activities issued by the Bank of Russia on 15 December 2016.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003, certificate No. 1001 of 20 March 2013. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has no branches. The Bank does not have any internal structural and isolated divisions, including in foreign countries.

The Bank is not the head credit unit of a banking group (the Group).

The number of the Bank’s employees at 31 December 2016 was 68 (31 December 2015: 67 employees).

Registered address and place of business. The Bank’s registered address is: Lybansky proezd, 11/1, building 1, Moscow 101000, Russian Federation.

The Bank operates in the Russian Federation.

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

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 22). During 2016, the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Bank’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in 2016, unless otherwise stated (refer to Note *5).*

Going concern. Management prepared these financial statements on a going concern basis.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly voluntary transaction between market participants at the measurement date under current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 23.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is –one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Bank analyses current rating of financial instruments. If major rating agencies assign different ratings to a counterparty, the Bank assigns the lowest rating to corresponding financial assets. The following table presents rating classification based on international long-term credit ratings:

Classification	Standard & Poor’s	Moody’s	Fitch
High level of reliability (from AA- to A+)	AA-	Aa3	AA-
High level of reliability (from AA- to A+)	A+	A1	A+
High level of reliability (from AA- to A+)	A	A2	A
High level of reliability (from AA- to A-)	A-	A3	A-
Higher than average level of reliability (from BBB- to BBB+)	BBB+	Baa1	BBB+
Higher than average level of reliability (from BBB- to BBB+)	BBB	Baa2	BBB
Higher than average level of reliability (from BBB- to BBB+)	BBB-	Baa3	BBB-
Average level of reliability (from BB- to BB+)	BB+	Ba1	BB+
Average level of reliability (from BB- to BB+)	BB	Ba2	BB
Average level of reliability (from BB- to BB+)	BB-	Ba3	BB-
Below the average level of reliability (from B+ and below)	B+	B1	B+
Below the average level of reliability (from B+ and below)	B	B2	B
Below the average level of reliability (from B+ and below)	B-	B3	B-

Initial recognition of financial instruments. Financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique, whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise all rights of claims to credit institutions maturing in less than three months, including interbank deposits with initial maturities of less than three months and claims under letters of credit with an interval between the date of the claim to the issuing bank (payment to a client) and expected date of consideration under the terms of the LC does not exceed three months, and balances on accounts with the Bank of Russia (except for mandatory reserves). Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the Central Bank of the Russian Federation. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations, hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting non-derivative receivable due on fixed or determinable dates that is not quoted in an active market. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

3 Summary of Significant Accounting Policies (Continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset, in full or in part, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired by depreciation.

Management regularly assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over the following estimated useful lives:

	Useful lives in years
Office and banking equipment	2 to 20
Motor vehicles	3

3 Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software and acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 25 years.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including currency swaps, are carried at their fair value.

All derivative financial instruments are carried as assets where their fair value is positive and as liabilities where their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Summary of Significant Accounting Policies (Continued)

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Share capital represents the contribution of the Bank's participant and is carried at cost.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Bank is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the CB RF are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Official rate translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2016, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 60.6569 and EUR 1 = RR 63, 8111 (31 December 2015: USD 1 = RR 72.8827 and EUR 1 = RR 79.6972). The principal average rate of exchange used for translating income and expenses for the period from 1 January 2016 to 31 December 2016 was USD 1 = RR 66.8335 and EUR 1 = RR 73.9924 (from 1 January 2015 to 31 December 2015: USD 1 = RR 60.9579 and EUR 1 = RR 67.7767).

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation budget and non-budget funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or repledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

3 Summary of Significant Accounting Policies (Continued)

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. Reverse repo transactions with original maturities of less than three months are reported within cash. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 20.

At 31 December 2016, other non-financial assets amount to RR 84 307 thousand including deferred tax asset of RR 7 933 thousand, premises and equipment and intangible assets of RR 57 051 thousand and other non-financial assets of RR 19 323 thousand, out of which assets of RR 19 317 thousand are of short-term nature. At 31 December 2016, other non-financial liabilities amount to RR 34 480 thousand including current income tax liabilities of RR 13 511 thousand and other non-financial liabilities of RR 20 969 thousand, out of which liabilities of RR 20 969 thousand are of short-term nature.

At 31 December 2015, other non-financial assets amount to RR 87 644 thousand including deferred tax asset of RR 9 264 thousand, premises and equipment and intangible assets of RR 61 123 thousand and other non-financial assets of RR 17 257 thousand, out of which assets of RR 17 257 thousand are of short-term nature. At 31 December 2015, other non-financial liabilities amount to RR 34 826 thousand including current income tax liabilities of RR 7 178 thousand and other non-financial liabilities of RR 26 536 thousand, out of which liabilities of RR 26 536 thousand are of short-term nature.

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Bank's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Management considered the impact of economic conditions in the Russian Federation (Note 2) on assessment of impairment losses on loans and advances. At 31 December 2016, the entire Bank's portfolio was neither past due, nor impaired.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Classification of the Bank's net assets as equity. The Bank's management considered the legal requirements and the Bank's charter documents and concluded that the Bank has no unconditional obligation to redeem participant interests. The charter documents grant participants with conditional redemption rights as prescribed by the –Federal Law "On Limited Liability Companies" (the– "Law"). In determining the procedure for accounting for the participant's interest as net assets or equity, management considered whether these redemption events are under the Bank's control.

Mandatory provisions of the Law grant conditional redemption rights in the following circumstances: (a) if any participant did not provide consent to the acquirer to become a participant of the company when it acquires an ownership interest through a public auction in the case of an original participant's bankruptcy (Articles 21.9 and 23.5 of the Law); (b) if the participant is expelled upon a court decision following the request of other participants holding at least 10% of charter capital (Articles 10 and 23.4 of the Law); this may occur when the participant regularly damages or impedes the Company's operations by its action or inaction; and (c) if a participant voted against a decision in general meeting of participants or did not vote on a significant transaction or increase in charter capital (Article 23.2 of the Law).

In determining that these contingent redemption rights do not result in classification as Net assets attributable to the Bank's Participant, management considered whether these redemption events are under the entity's control. In making this assessment, management considered that Article 32 of the Law states that the general meeting of participants is the highest governing body of the entity. Hence, these contingencies are under the entity's control. Where a participant may be expelled from the company only if the participant damages or impedes the Company's operations by its action or inaction, such an expulsion is in the interest of the Company and is made effectively on its behalf by other participants. Where the decision is required to be made by all the participants, management considered it equivalent to a unanimous decision of a general meeting of participants. While such a unanimous decision is not made by a formal meeting of participants, the decision-making process is similar to voting in absentia, as allowed by Article 38 of the Law.

Consequently, the Management arrived at a conclusion that the Bank's net assets are equity instruments as described in significant judgement about participant's role in governance of the entity.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Bank from 1 January 2016, but did not have any material impact on the Bank:

- IFRS 14 "Regulatory deferral accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation –- Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer Plants –– Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements –– Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative – Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception – Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

6 New Accounting Pronouncements (Continued)

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank is currently assessing the impact of the amendment on its financial statements.

The following standards and interpretations, as soon as they come into effect, are not expected to affect significantly the Bank's financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after the IASB approval date).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Cash on hand	86 154	59 418
Cash balances with the CB RF (other than mandatory reserve deposits)	729 611	803 327
Correspondent accounts and overnight placements with other banks and clearing systems	5 348 287	4 106 809
Placements with other banks with original maturities of less than three months	9 738 015	2 304 508
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	1 153 976	-
Receivables on confirmed letters of credit	763 794	996 523
Settlement accounts with trading systems	510 245	55 323
Total cash and cash equivalents	**18 330 082**	**8 325 908**

7 Cash and Cash Equivalents (Continued)

At 31 December 2016, the Bank had balances with 20 counterparty banks (31 December 2015: with 13 counterparty banks) that represent the Bank of Russia, Russian state owned banks, major Chinese banks and the Parent Bank with its subsidiaries and branches. The aggregate of these balances amounted to RR 18 205 957 thousand or 99.3% of cash and cash equivalents (31 December 2015: RR 6 643 515 thousand or 80.4%). The largest cash balances totalling RR 14 515 496 thousand (79.2% of cash and cash equivalents) are concentrated in seven Russian banks and one branch of the Parent Bank (31 December 2015: RR 6 313 023 thousand in three Russian banks and one branch of the Parent Bank (75.8% of cash and cash equivalents)).

At 31 December 2015, cash equivalents of RR 1 153 976 thousand (31 December 2015: nil) were actually collateralised by securities obtained under the reverse repo agreements with a fair value of RR 1 361 054 thousand.

The Bank has the right to sell or repledge these securities acquired under reverse repo agreements.

The credit quality of cash equivalents may be summarised based on definitions adopted by the international rating agencies Standard & Poor's/Fitch (Moody's ratings being translated to the rating equivalent) as follows at 31 December 2016:

In thousands of Russian Roubles	**Cash balances with the CBRF**	**Correspondent accounts and overnight placements with other banks and clearing systems**	**Placements with other banks with original maturities of less than three months**	**Receivables on confirmed letters of credit**	**Reverse sale and repurchase agreements with other banks with original maturities of less than three months**	**Settlement accounts with trading systems**	**Total**
Neither past due nor impaired							
- Central Bank of the Russian Federation	729 611	-	-	-		-	729 611
A rated	-	1 309 276	6 893	759 366		-	2 075 535
BBB- rated	-	2 000 519	1 213 224	4 428		510 233	3 728 404
BB+ rated	-	2 038 383	5 912 783	-		-	7 951 166
BB rated	-	-	1 200 639	-		-	1 200 639
BB- rated	-	-	600 328	-	1 153 976	-	1 754 304
Unrated	-	109	804 148	-		12	804 269
Total cash equivalents neither past due nor impaired	**729 611**	**5 348 287**	**9 738 015**	**763 794**	**1 153 976**	**510 245**	**18 243 928**

7 Cash and Cash Equivalents (Continued)

The credit quality of cash equivalents may be summarised based on definitions adopted by the international rating agencies Standard & Poor's/Fitch (Moody's ratings being translated to the rating equivalent) as follows at 31 December 2015:

In thousands of Russian Roubles	**Cash balances with the CBRF**	**Correspondent accounts and overnight placements with other banks and clearing systems**	**Placements with other banks with original maturities of less than three months**	**Receivables on confirmed letters of credit**	**Settlement accounts with trading systems**	**Total**
Neither past due nor impaired						
- Central Bank of the Russian Federation	803 327	-	-	-	-	803 327
A rated	-	1 084 020	239	996 523	-	2 080 782
BBB- rated	-	33				33
BB+ rated	-	1 400 000	2 304 269	-		3 704 269
Unrated	-	1 622 756	-	-	55 323	1 678 079
Total cash equivalents neither past due nor impaired	**803 327**	**4 106 809**	**2 304 508**	**996 523**	**55 323**	**8 266 490**

The Bank analyses current ratings of financial instruments based on international ratings assigned to counterparties by major rating agencies. The table presenting rating classification based on international long-term credit ratings is included in Note 3.

The maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 20. The fair value of cash and cash equivalents is disclosed in Note 24. Information on related party balances is disclosed in Note 26.

8 Due from Other Banks

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Short-term placements with other banks with original maturities of more than three months	440 874	1 862 976
Long-term placements with other banks with original maturities of more than one year	-	973 710
Total due from other banks	**440 874**	**2 836 686**

At 31 December 2016, the Bank had balances with two counterparty banks (31 December 2015: with five counterparty banks) that represent large Russian banks. The aggregate of these placements amounted to RR 440 874 thousand (31 December 2015: RR 2 836 686 thousand).

Due from other banks are neither past due nor impaired, and are not collateralised.

8 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2016, is as follows:

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Neither past due nor impaired			
International rating by Standard and Poor's:			
A	-	-	-
BBB-	135 998	-	135 998
BB-	304 876	-	304 876
Total due from other banks	**440 874**	**-**	**440 874**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2015 is as follows:

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Neither past due nor impaired			
International rating by Standard and Poor's:			
A	1 073 951	-	1 073 951
BBB-	219 963	-	219 963
BB+	569 062	973 710	1 542 772
Total due from other banks	**1 862 976**	**973 710**	**2 836 686**

Maturity and interest rate analyses of due from other banks are disclosed in Note 20. The estimated fair value of due from other banks is disclosed in Note 24.

9 Loans and Advances to Customers

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Corporate loans	5 450 526	8 636 707
Loans to individuals	105 251	50 784
Total loans and advances to customers	**5 555 777**	**8 687 491**

9 Loans and Advances to Customers (Continued)

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

	31 December 2016		31 December 2015	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Metallurgy	1 925 703	34.6%	2 464 226	28.4%
Chemical industry	1 467 715	26.4%	2 308 277	26.6%
Finance sector	1 000 379	18.0%	1 096 538	12.6%
Transportation services	681 832	12.3%	-	-
Oil industry	303 749	5.5%	1 503 256	17.3%
Individuals	105 251	1.9%	50 784	0.6%
Mining	71 128	1.3%	161 903	1.8%
Trade	20	0.0%	1 102 507	12.7%
Total loans and advances to customers	**5 555 777**	**100.0%**	**8 687 491**	**100.0%**

Information about collateral at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals**	**Total**
Unsecured loans	1 392 183	1 412	1 393 595
Loans guaranteed by other parties	3 057 964	-	3 057 964
Loans collateralised by:			
- property	1 000 379	-	1 000 379
- real estate	-	103 839	103 839
Total loans and advances to customers	**5 450 526**	**105 251**	**5 555 777**

Information about collateral at 31 December 2015 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals**	**Total**
Unsecured loans	5 506 653	2 352	5 509 005
Loans guaranteed by other parties	3 130 054	-	3 130 054
Loans collateralised by:			
- real estate	-	48 432	48 432
Total loans and advances to customers	**8 636 707**	**50 784**	**8 687 491**

At 31 December 2016 and 31 December 2015, loans and advances to customers are neither past due, nor impaired. Loans and advances to customers have no impairment indicators. Therefore, no provision for loan impairment was made.

Analysis by credit quality of loans and advances to customers at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
International rating by Standard and Poor's			
BBB-	794 508	-	794 508
BB+	303 749	-	303 749
BB-	1 467 715	-	1 467 715
B	1 000 379	-	1 000 379
Unrated	1 884 175	105 251	1 989 426
Total neither past due nor impaired	**5 450 526**	**105 251**	**5 555 777**

The counterparties classified as “unrated” represent major industrial financial entities whose parents’ ratings are BB and BB+.

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers at 31 December 2015 is as follows:

In thousands of Russian Roubles	Corporate loans	Loans to individuals	Total
Neither past due nor impaired			
International rating by Standard and Poor's			
BBB-	1 049 780	-	1 049 780
BB+	2 148 597	-	2 148 597
BB	1 222 856	-	1 222 856
BB-	1 085 420	-	1 085 420
Unrated	3 130 054	50 784	3 180 838
Total neither past due nor impaired	**8 636 707**	**50 784**	**8 687 491**

The counterparties classified as "unrated" represent major industrial financial entities whose parents' ratings are BB and BB+.

The Bank's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment of the loan is identified.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

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

The effect of collateral at 31 December 2016:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3 410 040	3 477 556	2 040 486	485 255
Loans to individuals	103 839	189 720	1 412	-
Total	**3 513 879**	**3 667 276**	**2 041 898**	**485 255**

The effect of collateral at 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	3 130 054	3 157 651	5 506 653	-
Corporate loans	48 432	77 714	2 352	-
Total	**3 178 486**	**3 235 365**	**5 509 005**	**-**

The maturity and interest rate analyses of loans and advances to customers are disclosed in Note 20. The estimated fair value of loans and advances to customers is disclosed in Note 24. Information on related party transactions is disclosed in Note 26.

10 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Office and banking equipment	Vehicles	Total premises and equipment	Computer software licences	Total
Cost at 1 January 2015	32 481	1 383	33 864	19 762	**53 626**
Accumulated depreciation and amortisation	(13 049)	(662)	(13 711)	(1 376)	**(15 087)**
Carrying amount at 1 January 2015	**19 432**	**721**	**20 153**	**18 386**	**38 539**
Additions	34 150	-	34 150	3 188	**37 338**
Depreciation and amortisation	(13 183)	(449)	(13 632)	(1 122)	**(14 754)**
Carrying amount at 31 December 2015	**40 399**	**272**	**40 671**	**20 452**	**61 123**
Cost at 31 December 2015	66 631	1 383	68 014	22 950	**90 964**
Accumulated depreciation and amortisation	(26 232)	(1 111)	(27 343)	(2 498)	**(29 841)**
Carrying amount at 31 December 2015	**40 399**	**272**	**40 671**	**20 452**	**61 123**
Additions	714	-	714	7 330	**8 044**
Disposals	(2 050)	-	(2 050)	(16)	**(2 066)**
Depreciation and amortisation	(8 073)	(272)	(8 345)	(1 919)	**(10 264)**
Disposals	198	-	198	16	**214**
Carrying amount at 31 December 2016	**31 188**	**0**	**31 188**	**25 863**	**57 051**
Cost at 31 December 2016	65 295	1 383	66 678	30 264	**96 942**
Accumulated depreciation and amortisation	(34 107)	(1 383)	(35 490)	(4 401)	**(39 891)**
Carrying amount at 31 December 2016	**31 188**	**0**	**31 188**	**25 863**	**57 051**

11 Other Assets

In thousands of Russian Roubles	31 December 2016	31 December 2015
Trade receivables	12 150	9 330
Other	7 173	7 927
Total other assets	**19 323**	**17 257**

All of the above assets are expected to be recovered less than 16 months after the year-end (of which RR 19 317 thousand is to be recovered in less than 12 months).

12 Due to Other Banks

In thousands of Russian Roubles	31 December 2016	31 December 2015
Short-term placements of other banks	-	4 135 996
Long-term placements of other banks	789 962	-
Correspondent accounts and overnight placements of other banks	272 777	153 762
Total due to other banks	**1 062 739**	**4 289 758**

Placements of other banks include funds attracted from the Parent Bank at the interest rate of 2.1% p.a. In 2015, the Bank raised finance from its Parent Bank at 0.62% to 6.13% p.a. and a Russian bank at 10.4% p.a.

The maturity and interest rate analyses of due to other banks are disclosed in Note 20. The estimated fair value of due to other banks is disclosed in Note 24. Information on related party transactions is disclosed in Note 26.

13 Customer Accounts

In thousands of Russian Roubles	31 December 2016	31 December 2015
Corporate clients		
- Term deposits	13 103 417	8 927 447
- Current/settlement accounts	4 796 726	1 813 028
Individuals		
- Current/demand accounts	139 860	115 451
- Term deposits	41 436	18 869
Total customer accounts	**18 081 439**	**10 874 795**

Economic sector concentrations within customer accounts are as follows:

	31 December 2016		31 December 2015	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Mining and metals	8 016 986	44.3%	3 776 403	34.7%
Trade	3 886 163	21.5%	774 724	7.1%
Telecommunications operations	2 705 735	14.9%	3 972 850	36.5%
Consulting services, including financial consulting	1 982 150	11.0%	767 256	7.1%
Energy industry	287 674	1.6%	817 200	7.5%
Individuals	181 296	1.0%	134 320	1.2%
Oil and gas	179 317	1.0%	251 172	2.3%
Other	842 118	4.7%	380 870	3.6%
Total customer accounts	**18 081 439**	**100.0%**	**10 874 795**	**100.0%**

At 31 December 2016, included in customer accounts were amounts due to three customers (31 December 2015: two customers) with balances exceeding RR 1 000 000 thousand. The aggregate balance of these customers' accounts was RR 12 074 577 thousand (31 December 2015: RR 7 615 047 thousand), or 67% (31 December 2015: 70%) of total customer accounts.

The maturity and interest rate analyses of customer accounts are disclosed in Note 20. The information on the estimated fair value of customer accounts is disclosed in Note 24. Information on related party transactions is disclosed in Note 26.

14 Other Financial and Non-financial Liabilities

In thousands of Russian Roubles	31 December 2016	31 December 2015
Financial liabilities		
Payables arising out of financial liabilities	9 514	3 070
Derivative financial instruments	18 104	1 112
Total financial liabilities	**27 618**	**4 182**
Non-financial liabilities		
Advances received	7 236	8 446
Liabilities for unused vacations	9 032	7 990
Taxes payable other than on income	4 701	4 772
Other	-	5 328
Total other liabilities	**20 969**	**26 536**
Total financial and non-financial liabilities	**48 587**	**30 718**

15 Equity

The Bank's share capital is RR 4 200 000 thousand (31 December 2015: RR 4 200 000 thousand) and comprises one share with a par value of RR 4 200 000 thousand. The Bank's share capital and par value of its participants' interest are expressed in Russian roubles. The share capital has been fully paid up.

16 Interest Income and Expense

In thousands of Russian Roubles	2016	2015
Interest income		
Due from other banks	784 408	621 471
Loans and advances to customers	317 181	304 990
Loans to individuals	7 158	3 440
Investments in securities	-	1 277
Total interest income	**1 108 747**	**931 178**
Interest expense		
Term deposits of legal entities	(249 363)	(50 491)
Term placements with other banks	(62 137)	(158 816)
Term deposits of individuals	(1 336)	(3 063)
Total interest expense	**(312 836)**	**(212 370)**
Net interest income	**795 911**	**718 808**

17 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2016**	**2015**
Fee and commission income		
Settlement transactions	24 292	5 969
Currency control	18 924	4 722
Guarantees	12 856	9 465
Trade finance	12 727	9 392
Cash transactions	1 187	1 688
Other	1 418	2 136
Total fee and commission income	**71 404**	**33 372**
Fee and commission expense		
Settlement transactions	9 407	4 225
Guarantees	3 533	-
Cash transactions, including cash collection	418	255
Other	338	331
Total fee and commission expense	**13 696**	**4 811**
Net fee and commission income/(expense)	**57 708**	**28 561**

18 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**2016**	**2015**
Staff costs	271 850	219 896
Taxes other than on income	17 198	19 054
Administrative expenses	15 329	15 353
Depreciation and amortisation	10 264	14 754
Utilities and property maintenance expenses	9 202	8 532
Expensed low value items	5 187	5 787
Audit fees	4 257	3 800
Security expenses	3 355	3 359
Rent expenses	981	421
Other	23 566	25 796
Total administrative and other operating expenses	**361 189**	**316 752**

Included in staff costs are budgetary and off-budgetary contributions in the amount of RR 28 073 thousand (2015: RR 22 299 thousand). Information on related party transactions is disclosed in Note 26.

19 Income taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	**2016**	**2015**
Current income tax expense	117 825	140 358
Deferred income tax asset	1 331	2 033
Income tax expense for the year	**119 156**	**142 391**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

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

In thousands of Russian Roubles	**2016**	**2015**
IFRS profit before tax	**542 426**	**614 204**
Theoretical tax charge at statutory rate (2016: 20%; 2015: 20%)	108 485	122 841
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	10 671	19 550
Income tax expense for the year	**119 156**	**142 391**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the changes in these temporary differences is detailed below and is recorded at the rate of 20 %.

In thousands of Russian Roubles	**31 December 2015**	**Credited to profit or loss**	**31 December 2016**
Tax effect of deductible/(taxable) temporary differences			
Loans and advances to customers	4 854	(3 825)	1 029
Due from other banks	1 680	(1 680)	-
Premises and equipment	(369)	(51)	(420)
Other	3 099	4 225	7 324
Net deferred tax asset	**9 264**	**(1 331)**	**7 933**

In thousands of Russian Roubles	**1 January 2015**	**Credited to profit or loss**	**31 December 2015**
Tax effect of deductible/(taxable) temporary differences			
Loans and advances to customers	7 541	(2 687)	4 854
Due from other banks	3 214	(1 534)	1 680
Premises and equipment	(318)	(51)	(369)
Other	860	2 239	3 099
Net deferred tax asset	**11 297**	**(2 033)**	**9 264**

20 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises credit risk, liquidity risk, and market risk (including currency risk and interest rate risk). The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

The risk management function in the Bank operates in accordance with requirements of the Bank of Russia.

The risk management of the Bank comprise:

- Structuring of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure;
- Organizational structure of risk management — a structure of the Bank's bodies and units involved in Risk Management activities.

In the Bank, the Board of Directors, the Management Board, and the Risk Management Division are responsible for managing risks. The complete independence of risk assessment and management is based on the Bank's corporate structure where the Risk Management Division is completely separated from business units that initiate risk-taking.

Structure and functions of the risk and capital management bodies

The structure of the Bank's management bodies and risk and capital management functions includes:

- the Bank's sole participant;
- Board of Directors;
- Management Board;
- Chairman of the Management Board;
- Operational and Reputational Risk Management Committee;
- Risk Management Division (RMD);
- Accounting Department;
- Internal Control Function (ICF);
- Internal Audit Service (IAS);

Risk and capital management functions of the Bank's sole participant:

- take decisions on increasing/decreasing the share capital and other capital-related transactions approved by the Bank's Charter;
- take decisions on dividend distribution;
- decide on related-party transactions and large deals as provided in the Bank's Charter.

Risk and capital management functions of the Bank's Board of Directors:

- approve the Bank's risk and capital management strategy;
- approve the risk appetite and target risk levels;
- consider the Bank's stress testing results and take decisions based on them (if necessary);
- decide on approval of related-party transactions and large deals as provided in the Bank's Charter;
- control and evaluate efficiency of the risk and capital adequacy management system by considering the Bank's financial statements.

Risk and capital management functions of the Bank's Management Board:

- provide conditions for effective implementation of the risk and capital adequacy management strategy;
- put into place risk and capital adequacy management processes in the Bank;
- ensure compliance with the internal capital adequacy assessment process and maintenance of capital adequacy;
- set up other risk and capital management bodies (business units) in the Bank, approve relevant regulations and define such bodies' roles (if necessary).

20 Financial Risk Management (Continued)

Risk and capital management functions of the Bank's Management Board Chairman:
- put into effect risk and capital adequacy management processes in the Bank through distribution of authorities between different business units of the Bank;
- set up other bodies (business units) for managing the Bank's risks and capital.

Functions of the Operational and Reputational Risk Management Committee:
- manage relevant risks;
- approve relevant risk limits within its competence;
- approve methodology for relevant risks;
- monitor and control utilisation of limits set for relevant risks;
- approve policies and use of the banking products exposed to the relevant risks.

Risk and capital management functions of RMD:
- develop, implement, run and improve the Bank's management system in accordance with the requirements of the Bank's Strategy and other internal documents, the Bank of Russia's requirements and guidelines, implement the process for material risk identification and assessment;
- prepare internal capital adequacy assessment process reports;
- prepare reports for the Bank's management bodies in charge of risk management to the extent necessary for them to take decisions;
- generate proposals for risk appetite limits and risk targets;
- perform stress tests;
- consolidate risk data and provide it to the authorised business units for disclosure.

Risk and capital management functions of the Accounting Department:
- prepare reports on the amount of equity (capital), compliance with statutory ratios, open currency position, provisions for potential loan losses, outstanding loans and equivalent debt of the Bank;

The Internal Control Function:
- identify compliance risk;
- monitor events related to regulatory risk, determine probability of occurrence and make quantitative assessment of potential consequences;
- coordinate and participate in the development of measures aimed at mitigation of the Bank's regulatory risk and monitor regulatory risk;
- monitor efficiency of regulatory risk management;
- identify and make arrangements for identifying conflicts of interest in the Bank's and its employees activities;
- analyse the customer complaints (requests, applications) flow and monitor the Bank's observance of the customer rights;
- participate in the development of internal documents and measures aimed to ensure compliance with the corporate behaviour rules and professional ethics;
- inform executive management bodies of weaknesses identified in the regulatory risk management system and measures taken to address them.

Risk and capital management functions of the Internal Audit Service (internal auditor):
- evaluate efficiency of the risk and capital adequacy management system, including reviews of the risk assessment techniques and risk management procedures established by the internal documents (methodologies, programmes, rules, procedures, etc.) and whether these documents are fully applied;
- inspect operations of the business units in charge of risk and capital adequacy management;
- inform the Board of Directors and executive management bodies of weaknesses identified in operation of the risk and capital adequacy management system and measures taken to address them.

20 Financial Risk Management (Continued)

The Bank's business units and employees as part of risk and capital management:

- implement the risk and capital adequacy management process in accordance with the principles defined by the Risk and Capital Management Strategy and the Bank's internal documents;
- allocate limits and target risk levels within the business units as part of the established limits and target risk levels;
- provide information required for integrated risk management;
- submit proposals on improvement of the risk and capital adequacy management system.

The Bank's priority is to reduce exposure to risks by collective decision making. Strict segregation of duties between units and officials of the Bank, accurately specified instructions and procedures, and determination of limits and authorities of units and managers are also essential areas for risk limitation. Appropriate methodologies are used to access the risk level. Instructions, procedures and methodologies are designed and revised by the Bank on a regular basis.

Risk monitoring includes:

- Setting risk limits based on assessment of relevant risk level.
- Control over the Bank's exposure to risk by:
  - Limits monitoring;
  - Regular assessment of the Bank's exposure to risks;
  - Anti-Money Laundering and Compliance control;
  - Meeting the requirements of the Central Bank of the Russian Federation with regard of covering the risks with sufficient equity;
  - Internal audit of risk management systems.

The main strategic objective of the Bank is to ensure sustainable operations, to maintain profit at the level which supports the Bank's development and to limit high-risk activities.

In 2016, pursuant to changes in the legislation, the Bank changed its regulation on the procedure for potential loss provisioning, updated its Business Continuity and Disaster Recovery Plan, developed the Regulation on the System of Limits and Controls to manage market risks and approved the Regulation on the Operational and Reputational Risk Committee (see the Operational Risk Section).

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets. The Bank's risks are mainly concentrated in transactions that make a major contribution to its financial result, namely lending to legal entities.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originated by the relevant managers from the Corporate and Financial Institutions Division are passed on to the Risk Management Division for financial analysis and consideration. The Management Board approves new limits, loans and changes and amendments to loan agreements on the basis of credit analysis and recommendations of the Risk Management Division.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Risk Management Division officers based on a structured analysis focusing on the customer's business and financial performance. The Risk Management Division performs current monitoring of the loan portfolio.

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

20 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment, refer to Note 22. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rate products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below represents the overall analysis of the Bank's financial assets, financial liabilities and other financial instruments by currencies at the end of the reporting period:

	31 December 2016				**31 December 2015**			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
Russian Roubles	13 305 034	(6 619 762)	(1 534 538)	5 150 734	5 920 581	(1 441 576)	150 000	4 629 005
US Dollars	9 718 528	(12 385 813)	2 791 901	124 616	13 845 240	(13 449 673)	(151 112)	244 455
Hong Kong Dollars	3 962	-	-	3 962	4 767	-	-	4 767
Euro	1 359 843	(79 520)	(1 276 222)	4 101	10 963	(2 788)	-	8 175
Other	97 365	(86 701)	(3 928)	6 736	272 747	(274 698)	-	(1 951)
Total	**24 484 732**	**(19 171 796)**	**(22 787)**	**5 290 149**	**20 054 298**	**(15 168 735)**	**(1 112)**	**4 884 451**

The above analysis includes only monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency with all other variables held constant:

	2016		**2015**	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 20% (2015: strengthening by 30%)	24 923	24 923	118 670	118 670
US dollar weakening by 20% (2015: weakening by 30%)	(24 923)	(24 923)	(118 670)	(118 670)
Euro strengthening by 20% (2015: strengthening by 30%)	820	820	2 453	2 452
Euro weakening by 20% (2015: weakening by 30%)	(820)	(820)	(2 453)	(2 452)
Hong Kong Dollar strengthening by 20% (2015: strengthening by 30%)	792	792	1 430	1 430
Hong Kong Dollar weakening by 20% (2015: weakening by 30%)	(792)	(792)	(1 430)	(1 430)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

20 Financial Risk Management (Continued)

The Bank's exposure to interest rate risk applies only to those of its assets and liabilities that are sensitive to interest rate fluctuations. To manage interest rate risk, the Bank mainly applies the following methods:

- Maturity-matching of assets and liabilities;
- Gap analysis, taking into consideration modified duration;
- Stress scenarios of symmetrical rise or fall in all yield curves.

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Assets and liabilities not exposed to interest rate risk	Total
31 December 2016							
Total financial assets	17 823 374	3 095 019	999 845	877	103 604	2 462 013	24 484 732
Total financial liabilities	(8 021 274)	(3 856 917)	(1 833 202)	(146 056)	-	(5 314 347)	(19 171 796)
Net interest sensitivity gap at 31 December 2016	**9 802 100**	**(761 898)**	**(833 357)**	**(145 179)**	**103 604**	**(2 852 334)**	**5 312 936**
31 December 2015							
Total financial assets	5 466 806	10 166 656	534 440	13 590	32 779	3 840 027	20 054 298
Total financial liabilities	(2 249 991)	(10 746 875)	(815)	-	(370 461)	(1 800 593)	(15 168 735)
Net interest sensitivity gap at 31 December 2015	**3 216 815**	**(580 219)**	**533 625**	**13 590**	**(337 682)**	**2 039 434**	**4 885 563**

Average interest rates. The table below displays average effective interest rates for interest bearing assets and liabilities at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016			**2015**		
	Average effective interest rate, %			**Average effective interest rate, %**		
In thousands of Russian Roubles	**RR**	**US Dollars**	**Other currencies**	**RR**	**US Dollars**	**Other currencies**
Interest-bearing assets						
Cash and cash equivalents	9.86	2.29	5.00	9.22	2.42	-
Due from other banks	-	3.18	-	-	3.89	8.21
Loans and advances to customers	13.73	3.87	-	12.69	3.69	-
Interest-bearing liabilities						
Due to other banks	-	2.09	-	6.76	1.19	4.68
Customer accounts	6.35	1.07	1.75	8.13	0.63	-

20 Financial Risk Management (Continued)

Interest rate sensitivity analysis. Analysis of profit or loss and equity (net of tax) sensitivity to changes in interest rates (interest rate risk) (carried out based on a simplified scenario of parallel decrease or increase of yield curves by 200 and 400 basis points higher or lower and revised positions on interest-bearing assets and liabilities effective as at 31 December 2016 and 31 December 2015 may be presented as follows:

	2016		2015	
	Profit or loss	**Equity**	**Profit or loss**	**Capital**
Parallel decrease of rates by 200 basis points	(172 793)	(138 234)	(56 104)	(44 883)
Parallel increase of rates by 200 basis points	172 793	138 234	56 104	44 883
Parallel decrease of rates by 400 basis points	(345 586)	(276 469)	(112 208)	(89 766)
Parallel increase of rates by 400 basis points	345 586	276 469	112 208	89 766

Other price risk. The Bank has no exposure to equity price risk. During the reporting period, the Bank has not engaged in transactions with assets that are subject to equity risk.

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers.

Geographical risk concentrations. Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located.

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

In thousands of Russian Roubles	**Russia**	**Europe**	**China**	**Kazakhstan**	**Total**
Financial assets					
Cash and cash equivalents	16 254 549		2 075 533	-	18 330 082
Mandatory cash balances with the Central Bank of the Russian Federation	155 673		-	-	155 673
Due from other banks	440 874		-	-	440 874
Loans and advances to customers	4 850 506		23 439	681 832	5 555 777
Other financial assets	1 991		335	-	2 326
Total financial assets	**21 703 593**		**2 099 307**	**681 832**	**24 484 732**
Financial liabilities					
Due to other banks	-	-	1 062 739	-	1 062 739
Customer accounts	15 354 913	1 354 926	1 371 600	-	18 081 439
Other financial liabilities	25 029	12	2 577	-	27 618
Total financial liabilities	**15 379 942**	**1 354 938**	**2 436 916**	**-**	**19 171 796**
Net position in on-balance sheet financial instruments	**6 323 651**	**(1 354 938)**	**(337 609)**	**681 832**	**5 312 936**

20 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	Europe	China	Total
Financial assets				
Cash and cash equivalents	6 245 126	-	2 080 782	8 325 908
Mandatory cash balances with the Central Bank of the Russian Federation	203 727	-	-	203 727
Due from other banks	1 762 736	-	1 073 950	2 836 686
Loans and advances to customers	7 575 676	1 096 538	15 277	8 687 491
Other financial assets	483	-	3	486
Total financial assets	**15 787 748**	**1 096 538**	**3 170 012**	**20 054 298**
Financial liabilities				
Due to other banks	285 081	-	4 004 677	4 289 758
Customer accounts	10 733 568	-	141 227	10 874 795
Other financial liabilities	3 070	-	1 112	4 182
Total financial liabilities	11 021 719	-	4 147 016	15 168 735
Net position in on-balance sheet financial instruments	**4 766 029**	**1 096 538**	**(977 004)**	**4 885 563**

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 67.2% at 31 December 2016 (31 December 2015: 134.4%).
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 171.5% at 31 December 2016 (31 December 2015: 212.0%).
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 47.2% at 31 December 2016 (31 December 2015: 74.1%).

The Treasury Department of the Bank, based on the analysis of financial assets and liabilities, provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored by the Treasury Department, and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Risk Management Division.

20 Financial Risk Management (Continued)

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

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.
The maturity analysis of financial instruments without discount at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	272 777	7 303	7 174	813 883	-	1 101 137
Customer accounts – individuals	141 371	35 963	4 348	-	-	181 682
Customer accounts – other	10 024 701	3 073 382	4 833 985	146 975	-	18 079 043
Other financial liabilities (other than financial derivatives)	3 118	5 296	1 100	-	-	9 514
Credit related commitments	9 099	32 044	2 384 255	3 047 701	-	5 473 099
Gross settled currency derivatives						
- inflows	(3 393 622)	-	-	-	-	(3 393 622)
- outflows	3 416 399	-	-	-	-	3 416 399
Total potential future payments for financial obligations	**10 473 843**	**3 153 988**	**7 230 862**	**4 008 559**	**-**	**24 867 252**

The maturity analysis of financial instruments without discount at 31 December 2015 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	1 163 221	3 146 484	-	-	-	4 309 705
Customer accounts – individuals	118 139	15 530	817	-	-	134 486
Customer accounts – other	2 737 920	7 634 999	7 412	-	381 149	10 761 480
Other financial liabilities (other than financial derivatives)	3 070	-	-	-	-	3 070
Credit related commitments	114 328	296 405	-	1 303 992	306 735	2 021 460
Gross settled currency derivatives						
- inflows	(150 000)	-	-	-	-	(150 000)
- outflows	152 269	-	-	-	-	152 269
Total potential future payments for financial obligations	**4 138 947**	**11 093 418**	**8 229**	**1 303 992**	**687 884**	**17 232 470**

20 Financial Risk Management (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap, which may be summarised as follows at 31 December 2016:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	17 677 438	652 644	-	-	-	18 330 082
Mandatory cash balances with the Central Bank of the Russian Federation	155 673	-	-	-	-	155 673
Due from other banks	1 459	132 204	307 211	-	-	440 874
Loans and advances to customers	33 624	659 792	1 883 002	2 902 735	76 624	5 555 777
Other financial assets	1 894	225	-	207	-	2 326
Total financial assets	**17 870 088**	**1 444 865**	**2 190 213**	**2 902 942**	**76 624**	**24 484 732**
Liabilities						
Due to other banks	272 777	-	-	789 962	-	1 062 739
Customer accounts – individuals	141 365	35 643	4 288	-	-	181 296
Customer accounts – other	10 020 946	3 055 235	4 677 811	146 151	-	17 900 143
Other financial liabilities	21 223	5 296	1 099	-	-	27 618
Total potential future payments for financial obligations	**10 456 311**	**3 096 174**	**4 683 198**	**936 113**	**-**	**19 171 796**
Net liquidity gap at 31 December 2016	**7 413 777**	**(1 651 309)**	**(2 492 985)**	**1 966 829**	**76 624**	**5 312 936**
Total liquidity gap at 31 December 2016	**7 413 777**	**5 762 468**	**3 269 483**	**5 236 312**	**5 312 936**	**-**

20 Financial Risk Management (Continued)

The Bank monitors expected maturities and the resulting expected liquidity gap, which may be summarised as follows at 31 December 2015:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	7 693 231	632 677	-	-	-	8 325 908
Mandatory cash balances with the Central Bank of the Russian Federation	203 727	-	-	-	-	203 727
Due from other banks	225 810	1 957 193	653 683	-	-	2 836 686
Loans and advances to customers	615 748	2 116 029	1 571 442	4 351 784	32 488	8 687 491
Other financial assets	96	-	-	390	-	486
Total financial assets	**8 738 612**	**4 705 899**	**2 225 125**	**4 352 174**	**32 488**	**20 054 298**
Liabilities						
Due to other banks	1 162 054	3 127 704	-	-	-	4 289 758
Customer accounts – individuals	117 925	15 578	817	-	-	134 320
Customer accounts – other	2 735 828	7 618 095	7 412	-	379 140	10 740 475
Other financial liabilities	4 182	-	-	-	-	4 182
Total potential future payments for financial obligations	**4 019 989**	**10 761 377**	**8 229**	**-**	**379 140**	**15 168 735**
Net liquidity gap at 31 December 2015	**4 718 623**	**(6 055 478)**	**2 216 896**	**4 352 174**	**(346 652)**	**4 885 563**
Total liquidity gap at 31 December 2015	**4 718 623**	**(1 336 855)**	**880 041**	**5 232 215**	**4 885 563**	**-**

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

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of reports prepared by the Internal Audit Service which reports to the Board of Directors.

The Bank's operational risk management involves several stages: identification, assessment, monitoring, control and/or minimisation of operational risk. To minimise operational risk, the Bank regularly reviews information security, improves internal regulatory documents setting the procedures for managing transactions, optimizes informational flows and internal document workflow.

20 Financial Risk Management (Continued)

The Bank identifies operational risk on a regular basis. To that effect, the Bank maintains an analytic database of operating losses incurred broken down by activities of the Bank to record types and amounts of losses, and also circumstances under which these losses have occurred. The Bank also maintains an external database of operational risks that presents realized facts of operational risk in the external environment of the Bank. In addition to collecting and analysing its loss data, the Bank implemented risk and controls assessment by the Bank's units as well as key operational risk indicators.

While the Risk Management Division (hereinafter, "RMD") and Internal Control Function (hereinafter, "ICF") report directly to the Bank's Management Board and the Board of Directors, the Bank has the Operational and Reputational Risk Management Committee (ORRMC) with the key responsibility to manage relevant risks. ORRMC focuses on mitigation of the Bank's operational and reputational risks by designing and maintaining the quality process for managing these risks. ORRMC performs a comprehensive analysis of the Bank's exposure to operational and reputational risks (considering the views of the Bank's business units) as well as ensures a clear understanding and takes measures to achieve the goals and objectives of the operational and reputational risk management.
ORRMC includes the following members:

- RMD Head, the Bank's Management Board member
- Head of the Legal Department, the Bank's Management Board member
- ICF Leader
- Chief Accountant

Legal risk. Legal risk is the risk that the Bank can incur losses due to its non-compliance with laws and regulations, and non-performance of concluded contracts, legal errors committed in operating activity, imperfect legal system, violation by counterparties of laws and regulations and contractual terms.

The Bank maintains ongoing monitoring of changes in Russian and international legislation and timely amends internal instructions and regulations and thus reduces this risk.

21 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 11.125% (since 1 January 2017: 11.75%), which exceeds both the Basel Accord' minimum capital adequacy requirements and those of the Bank of Russia (8.625%, and 9.25% starting from 1 January 2017). The amount of capital that the Bank managed at 31 December 2016 was RR 5 362 763 thousand (31 December 2015: RR 4 939 493 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and amounts RR 5 373 955 thousand (2015: RR 4 966 379 thousand).

The Bank complied with all externally imposed capital requirements throughout 2016 and 2015. At 31 December 2016 statutory capital ratio (N1.0) amounted to 32.3% (at 31 December 2015: 31.6%).

22 Contingencies and Commitments

Legal proceedings. During the years 2016 and 2015 there were no legal claims against the Bank.

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. The Bank has the procedures in place to comply with the transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Compliance with covenants. The Bank is not subject to any covenants related to its borrowings.

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

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

22 Contingencies and Commitments (Continued)

In thousands of Russian Roubles	31 December 2016	31 December 2015
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	174 972	350 398
Financial guarantees issued	5 263 727	1 260 329
Export letters of credit (irrevocable)	34 400	410 733
Total credit related commitments	**5 473 099**	**2 021 460**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments at 31 December 2016 was close to nil (31 December 2015: close to nil). Guarantees are denominated in US dollars, Russian roubles and Chinese yuans.

Operating lease commitments. At 31 December 2016, total future sublease payments receivable under the Bank's operating subleases in the period from notification to cancellation are RR 4 210 thousand (2015: RR 5 058 thousand).

23 Derivative Financial Instruments

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

	31 December 2016		31 December 2015
In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Contracts with negative fair value
Foreign exchange swap contracts: fair values, at the balance sheet date, of			
- USD payable on settlement (-)	(298 590)		(151 112)
- USD receivable on settlement (+)		2 482 702	
- RR receivable on settlement (+)	300 000	4 351	150 000
- RR payable on settlement (-)		(1 225 007)	
- CNY receivable on settlement (+)		436	
- CNY payable on settlement (-)		(4 364)	
- EUR payable on settlement (+)		(1 276 222)	
Net fair value of foreign exchange swap contracts	**1 410**	**(18 104)**	**(1 112)**

At 31 December 2016 the Bank had 10 foreign exchange swap contracts (31 December 2015: two foreign exchange swap contracts) with negative fair value of RR 16 694 thousand (31 December 2015: with negative fair value of RR 1 112 thousand).

24 Fair Value Disclosures

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

(a) Recurring fair value measurements

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

	31 December 2016		**31 December 2015**	
In thousands of Russian Roubles	**Valuation technique with inputs observable in markets (Level 2)**	**Total**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Liabilities carried at fair value				
Financial liabilities				
Derivative financial instruments				
- Fair value of currency derivatives	(18 104)	**(18 104)**	(1 112)	**(1 112)**
Total liabilities recurring fair value measurements	**(18 104)**	**(18 104)**	**(1 112)**	**(1 112)**

At 31 December 2016, the Bank has short-term (less than one month) foreign exchange swap contracts closed shortly after the 2016 year end. At 31 December 2015, the Bank had short-term (less than one month) foreign exchange swap contracts closed shortly after the 2015 year end. The Banks values instruments using spot and currency exchange rates, quoted at the Moscow Interbank Stock Exchange (MICEX) at the year end.

24 Fair Value Disclosures (Continued)

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

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

	31 December 2016				31 December 2015			
In thousands of Russian Roubles	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS								
Cash and cash equivalents		18 330 082		18 330 082		8 325 908		8 325 908
Mandatory cash balances with the Central Bank of the Russian Federation		155 673		155 673		203 727		203 727
Due from other banks		440 874		440 874		2 826 686		2 836 686
Loans and advances to customers			5 599 502	5 555 777			8 611 349	8 687 491
Other financial assets			916	916			486	486
TOTAL		**18 926 629**	**5 600 418**	**24 483 322**		**11 356 321**	**8 611 835**	**20 054 298**

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

	31 December 2016				31 December 2015			
In thousands of Russian Roubles	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
FINANCIAL LIABILITIES								
Due to other banks		1 062 739		1 062 739		4 289 758		4 289 758
Customer accounts		18 081 439		18 081 439		10 874 795		10 874 795
Other financial liabilities			9 514	9 514			11 563	11 563
TOTAL		**19 144 178**	**9 514**	**19 153 692**		**15 164 553**	**11 563**	**15 176 116**

In Notes 7, 8, 12, 13, 14, fair values of cash and cash equivalents, due from other banks, other financial assets, due to other banks, customer accounts and other financial and non-financial assets do not differ significantly from their carrying values at 31 December 2016 and 31 December 2015.

At 31 December 2016, the fair value of loans and advances to customers was RR 5 599 502 thousand (31 December 2015: RR 8 611 349 thousand).

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

For assessment of fair value of loans and advances to customer categorized at Level 3, the Bank uses discounted cash flows model.

24 Fair Value Disclosures (Continued)

The Bank calculates FV for loans with fixed interest rate with remaining maturity of more than one year. The Bank uses the following assumptions:

- the fair values of loans with floating rate are considered to be equal to the carrying value because the interest payments are based on LIBOR or MIBOR depending on the terms of agreement.
- the fair value of loans with remaining maturity less than one year are considered to be equal to the carrying value due to the fact that effect of fair value recalculation based on current market rates is not material.

For corporate loans with maturity more than one year the Bank discounts monthly payments at weighted average rate by product type and currency type calculated based on contractual rates for loans issued by the Bank during the last quarter before the reporting date.

For loans to private individuals with maturity more than one year the Bank discounts monthly payments at weighted average rate by product type and currency type calculated based on the loans issued at the end of the last quarter before the reporting date.

25 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets at fair value through profit or loss (“FVTPL”). All of the Bank's financial assets at 31 December 2016 are classified as “loans and receivables” (31 December 2015: “loans and receivables”).

All of the Bank’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category and were held for trading.

26 Related Party Transactions

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

For related party disclosure purposes, the Bank considers three categories of related parties:

1. Entities belonging to the financial group Construction Bank of China Corporation. Balances and transactions with the entities are disclosed in the table below under the headline “Parent Bank and its subsidiaries”.
2. An individual or a close family member of this individual, if this individual is member of key management personnel of the Bank. Balances and transactions with these individuals are disclosed in the table below under the headline “Key management personnel”.
3. Other related parties are represented by parties under influence from the same government authorities that exercise control/ joint control or exert significant influence on the Other parties and the Bank: the Corporation is under joint control of Central Huijin Investment Limited and the Ministry of Finance of China, which in turn are under control and significant influence of the People’s Republic of China. No other significant transactions with the Bank’s other related parties were conducted in the reporting period.

26 Related Party Transactions (Continued)

At 31 December 2016 and 31 December 2015, the outstanding balances with related parties were as follows:

	31 December 2016		
In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Cash and cash equivalents (interest rate: 2.1%-2.25%, 5%-10%)	1 356 300	-	3 522 092
Due to other banks (interest rate 2.1%)	1 062 739	-	-
Customer accounts (other than credit institutions)	-	13 376	-
Currency derivative financial instruments stated at fair value	1 410	-	-
Currency derivative financial instruments receivable at the end of the year	300 000	-	-
Currency derivative financial instruments payable at the end of the year	(298 590)	-	-
Guarantees received	1 213 138	-	-

	31 December 2015		
In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Cash and cash equivalents (interest rate: 2.18% - 2.78%)	1 256 335	-	824 480
Due to other banks (interest rate 1.88% – 2.78%, 10.4%)	4 004 676	-	285 081
Customer accounts (other than credit institutions)	-	12 104	-
Currency derivative financial instruments stated at fair value	(1 112)	-	-
Currency derivative financial instruments receivable at the end of the year	150 000	-	-
Currency derivative financial instruments payable at the end of the year	(151 112)	-	-
Guarantees received	500 000	-	-

The income and expense items with related parties during the years 2016 and 2015 were as follows:

	2016		
In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Interest income	2 376	-	3 784
Interest expense	36 723	81	25 141
Income received from trading in foreign currencies	2 355	107	5 263
Losses from trading in foreign currencies	-	25	-
Administrative and other operating expenses	105	-	-
Fee and commission income	277	39	66
Fee and commission expense	4 894	-	6
Net income from derivatives' trading in foreign currencies	53 149	-	-

26 Related Party Transactions (Continued)

	2015		
In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Interest income	1 964	22	-
Interest expense	98 567	313	41 370
Income received from trading in foreign currencies	2 940	-	368
Losses from trading in foreign currencies	4 981	-	1 448
Fee and commission income	100	-	-
Fee and commission expense	650	-	18
Net income from derivatives' trading in foreign currencies	14 524	-	-

In April 2014 the Bank signed a free-of-charge lease agreement for a building with the Parent Bank. Under the lease, the Bank can sublease out parts of the building. In 2016, included in other operating income was income from sublease of RR 56 199 thousand (2015: RR 51 120 thousand).

Movements in assets and liabilities with related parties during 2016 are as follows:

In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Assets			
Amounts lent to related parties during the year	6 193 421	-	8 856 424
Amounts repaid by related parties during the year	7 392 423	-	6 161 217
Liabilities			
Amount of deposits received from related parties during the year	44 588 231	15 595	20 587 944
Amounts of deposits repaid to related parties during the year	47 636 193	9 253	20 872 944

Movements in assets and liabilities with related parties during 2015 are as follows:

In thousands of Russian Roubles	**Parent Bank and its subsidiaries**	**Key management personnel**	**Other related parties**
Assets			
Amounts lent to related parties during the year	3 686 774	470	1 014 182
Amounts repaid by related parties during the year	4 691 084	470	189 735
Liabilities			
Amount of deposits received from related parties during the year	18 711 978	1 625	20 964 000
Amounts of deposits repaid to related parties during the year	25 170 764	4 175	21 410 359

26 Related Party Transactions (Continued)

Compensation to key management personnel during 2016 and 2015 was as follows:

In thousands of Russian Roubles	**2016**	**2015**
Compensation:		
- Salaries	48 692	55 561
- Bonuses	11 319	7 530
- Other payments	2 922	2 618
- Pension and social security costs	4 550	2 557
Total key management compensation	**67 483**	**68 266**