



PJSC BEST EFFORTS BANK

Financial Statements for the year ended 31 December 2016

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AUDITOR'S REPORT

**on the Financial Statements of
Best Efforts Bank
(Public Joint Stock Company)
for FY 2016**

**MOSCOW
2017**

AUDITOR'S REPORT
FOR THE SHAREHOLDERS OF
BEST EFFORST BEST
(Public Joint Stock Company)

Opinion

We have audited the accompanying financial statements of Best Efforts Bank (Public Joint Stock Company) (OGRN 1037700041323, 38 Dolgorukovskaya Street, Building 1, Moscow 127006), comprising the Statement of Financial Position as of 31 December 2016, Profit and Loss Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and notes to the financial statements consisting of a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Best Efforts Bank (Public Joint Stock Company) as of 31 December 2016, as well as the financial results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibility in accordance with these standards is described in the section Auditor's Responsibility for the Audit of the Financial Statements of this Report. We are independent of the Auditee in accordance with the Rules for the Independence of Auditors and Audit Organizations and the Code of Professional Ethics of Auditors that comply with the Code of Ethics for Professional Accountants developed by the Council for International Ethical Standards for Professional Accountants and we have fulfilled all other obligations in accordance with these requirements of professional ethics.

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

Key Audit Matters

Key audit matters are issues that, according to our professional judgment, were the most significant for our audit of the financial statements for the current period. These issues were considered in the context of our audit of the financial statements in general and for forming our opinion on these financial statements, and we do not express a separate opinion on these matters.

Report of findings from the procedures performed in compliance with the requirements of Article 42 of Federal Law № 395-I On Banks and Banking Activities dated 2 December 1990 (as amended and supplemented).

Management of PJSC Best Efforts Bank is responsible for the Bank's compliance with statutory requirements established by the Bank of Russia, as well as for maintaining internal controls and organizing risk management systems in accordance with the requirements imposed by the Bank of Russia on such systems.

In compliance with Article 42 of Federal Law № 395-I *On Banks and Banking Activities* during our audit of the Bank's annual financial statements for FY 2015 we have audited:

- the Bank's compliance as at 1 January 2017 with the statutory requirements imposed by the Bank of Russia;
- compliance of the Bank's internal controls and risk management systems with the requirements imposed by the Bank of Russia on such systems.

This audit was limited by the procedures that were selected on the basis of our judgment and included inquiries, analyses, inspections of documents, comparisons of the Bank's policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, reconciliations and comparisons of numerical data and other information.

Our findings from the procedures are reported below:

1) based on our procedures with respect to the Bank's compliance with the statutory requirements imposed by the Bank of Russia we established that :

- the Bank's mandatory ratios as at 1 January 2017 were within the limits established by the bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank other than those that we considered necessary to enable us to express an opinion as to whether the Bank's annual financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, its financial performance and its cash flows for FY 2016 in compliance with the International Financial Reporting Standards and the requirements of the Russian laws to financial reporting;

2) based on our procedures with respect to compliance of the Bank's internal controls and risk management systems with the requirements of imposed by the Bank of Russia on such systems we found that:

- as at 31 December 2016 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors, the risk management function was not subordinated to and accountable to divisions accepting the respective risks in accordance with the regulations and recommendation of the Bank of Russia; the heads of the internal audit department and risk management department of the Bank comply with the qualification requirements established by the Bank of Russia;
- the Bank's internal documentation, effective as at 31 December 2016, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest, legal, liquidity, reputational risks, and for stress testing was approved by the authorized management bodies of the Bank in accordance with the regulations and recommendations of the Bank of Russia;
- as at 31 December 2016, the Bank maintained a system of reporting on its significant credit, operational, market, interest, legal, and reputational risks, as well as on the Bank's capital;

- the frequency and consistency of the reports prepared by the Bank's risk management function and the internal audit department during 2016, which cover the Bank's credit, operational, market, interest, legal, liquidity and reputational risks, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management function and the Internal Audit Department as to their assessment of the efficiency of the Bank's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2016, the Bank's Board of Directors and the executive management of the Bank had the responsibility for monitoring the Bank's compliance with the risk limits and capital adequacy ratios as established by the Bank's internal documentation, as well as the efficiency of risk management procedures applied by the Bank and their consistency.

Our procedures with respect to the Bank's internal controls and risk management systems were performed solely for the purpose of examining whether these controls and systems are in compliance with the requirements imposed by the Bank of Russia on such systems.

Other Matters

We represent that after the reporting date the Bank carried out the necessary measures to improve its internal control system. The implementation of these measures has a significant impact on the conclusion on the absence of uncertainty in the evaluation of the Bank's activities, and in this connection the auditor conducted additional procedures in accordance with ISA 560.

Responsibility of Management and Members of the Board of Director of the Audited Entity for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in compliance with the International Financial Reporting Principles and internal controls required to prepare the financial statements that are free from any material misstatement, whether due to fraud or error.

In the preparation of financial statements, Management is responsible for assessing the ability of the entity to continue as a going concern, for appropriate disclosures relating to the going concern, and for reporting on the basis of the going concern assumption, unless the management intends to liquidate the audited entity, terminate its activities or when they lack any other real alternative, except for the liquidation or termination thereof.

Members of the Board of Directors are responsible for overseeing the preparation of the financial statements of the audited entity.

Auditor's Responsibility for the Audit of Financial Statements

Our goal is to obtain reasonable assurance that the financial statements do not contain any material misstatements, whether due to fraud or error, and in issuing an auditor's report that contains our opinion. Reasonable assurance is a high degree of certainty, but it does not guarantee that an audit conducted in accordance with ISA always reveals material misstatements, if any. Misstatements may result from fraud or error and are considered material, if it can be reasonably assumed that, individually or collectively, they may affect economic decisions of users made on the basis of these annual consolidated financial statements.

As part of the audit conducted in accordance with ISA, we apply professional judgment and maintain professional skepticism throughout the engagement.

In addition, we perform the following procedures:

- a) identify and assess the risks of material misstatement of the financial statements due to fraud or error; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to error, since fraudulent actions may include collusion, forgery, intentional omissions, misrepresentation of information or actions bypassing the internal controls;
- b) obtain an understanding of the internal controls that is relevant to the audit, with a view to developing audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the efficiency of the auditee's internal control system;
- c) evaluate the appropriate nature of the accounting policies applied, the reasonableness of accounting estimates and of the corresponding disclosures prepared by the management of the audited entity;
- d) make conclusions on the reasonableness of application of the going concern assumption by the auditee's management; and on the basis of the audit evidence obtained - make the conclusion whether there is a material uncertainty in connection with events or conditions that may give rise to significant doubts about the ability of the audited entity to continue as a going concern. If we conclude that there is material uncertainty, in our auditor's report we should draw attention to the relevant disclosure in the financial statements, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained before the date of our auditor's report. However, future events or conditions may lead to the loss of the auditee's ability to continue as a going concern;
- e) assess the presentation of the financial statements in general, its structure and content, including disclosures, as well as whether the financial statements present the underlying operations and events in a manner that ensures their adequate understanding;

We exchange information with the members of the Board of Directors of the audited entity, bringing to their attention, among other things, information on the planned scope and timing of the engagement, as well as significant comments on the engagement results, including significant weaknesses in the internal controls that we identify during the engagement.

We also provide to the members of the Board of Directors of the audited entity the statement that we have complied with all relevant ethical requirements for independence and informed these persons of all relations and other issues that can reasonably be considered as issues influencing the independence of an auditor, and, if applicable, of the relevant precautions.

Among issues that we brought to the attention of the members of the Board of Directors of the audited entity, we determined the issues that were the most significant for the audit of the financial statements for the current period and, therefore, they are our key audit matters.

We describe these matters in our auditor's report, except in cases where public disclosures about such issues is prohibited by law or regulation, or when, in very rare cases, we come to the conclusion that information about a matter should not be mentioned in the auditor's report, as it can reasonably be assumed that the negative consequences of the communication of such information will exceed the socially significant benefit from its communication.

**Head of the Credit Institutions Audit
Division, Audit Department,
JSC AKG RBS**

acting on the basis of PoA № 07
dated 9 January 2017
(qualification certificate № 01-000319 as of 26
December 2011 duration unlimited)



E.V. Pelevina

AUDITOR:

Joint Stock Company Audit-Consulting Group Business Systems Development.

State Registration Number: 1027739153430

Location: 5/3 Sushchevsky Val, Moscow 127018, Russian Federation.

Full member of the self-regulatory organization of auditors Non-Profit Partnership Auditor Association Sodruzhestvo (NP AAS).

Number in the Register of Auditors and Audit Organizations of the Self-Regulatory Organization of Auditors: 11206027697.

11 April 2017, except for the date in respect of information contained in the *Other Matters* paragraph, which is dated 15 May 2017 - the date of completion of the audit procedures for the evaluation and testing of changes made to the internal control system.

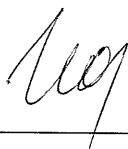
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR FY 2016

In thousands of Russian roubles


	Note	2016	2015
Interest income	4	181 545	195 237
Interest expense	4	(122 809)	(159 631)
Net interest income		58 736	35 606
Fee and commission income	5	168 639	78 567
Fee and commission expense	6	(91 588)	(36 830)
Net fee and commission income		77 051	41 737
Net income from financial assets available for sale		7 980	1 762
Income from early discharge of issued debt liabilities		-	-
Net income from foreign currency transactions	7	157 722	109 376
Other income		2 305	1 727
Operating income		303 794	190 208
Recovery (creation) of impairment provisions	8	(27 034)	760
Other general and administrative expense	9	(161 082)	(123 604)
Profit before income tax		115 678	67 364
Income tax expense	10	(25 740)	(12 612)
Profit for the year		89 938	54 752
Other comprehensive income less income tax			
Financial assets available for sale:			
- Net change in fair value of financial assets available for sale		31 962	1 912
- Net change in fair value of financial assets available for sale transferred to profit or loss		(6 384)	(1 410)
Other comprehensive (loss) profit less income tax		25 578	502
Total comprehensive income for the year		115 516	55 254
Basic and diluted earnings per ordinary share (in RUB per share)	30	1,59	0,97

The accompanying Notes are an integral part of this Statement of Profit and Loss and Other Comprehensive Income.

These financial statements were approved by the Bank's Management Board on 11 April 2017 and were signed on their behalf by:


 I.B. Ionova
 Chairman of the Board




 L.S. Grigorenko
 Chief Accountant

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

In thousands of Russian roubles

	Note	2016	2015
ASSETS			
Cash and cash equivalents	11	1 845 871	1 843 678
Statutory reserve with the Central Bank of the Russian Federation		28 636	11 609
Due from banks	12	210 452	289 427
Accounts receivable under REPO agreements	13	1 462 841	1 107 001
Positive fair value of derivative financial instruments	29	17 540	10 563
Financial assets available for sale:			
- owned by the Bank	14	834 976	961 733
- pledged under REPO agreements	14	234 923	204 906
Loans to customers	15	14 320	43 063
Current income tax receivables		1 672	22 526
Property, plant and equipment		45 683	3 546
Intangible assets		9 932	10 734
Other assets	16	6 076	5 792
Total assets		4 712 922	4 514 578
LIABILITIES			
Negative fair value of derivative financial instruments	29	7 409	16 097
Due to banks		636	-
Accounts payable on REPO agreements	17	630 458	1 022 866
Current accounts and deposits from customers	18	2 772 975	2 285 470
Debt liabilities issued	19	-	27 749
Deferred income liabilities		195	-
Other liabilities	20	33 408	14 598
Total liabilities		3 445 081	3 366 780
EQUITY			
Share capital	21	702 762	702 762
Additional capital		685 811	685 811
Reserve for revaluation of financial assets available for sale		212	(25 366)
Accumulated loss		(120 944)	(215 409)
Total equity		1 267 841	1 147 798
Total liabilities and equity		4 712 922	4 514 578

The accompanying Notes are an integral part of this Statement of Profit and Loss and Other Comprehensive Income.

These financial statements were approved by the Bank's Management Board on 11 April 2017 and were signed on their behalf by:

I.B. Ionova

Chairman of the Board



L.S. Grigorenko

Chief Accountant

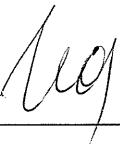
CASH FLOW STATEMENT FOR FY 2016

In thousands of Russian roubles

	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Interests received		192 986	214 798
Interests paid		(131 524)	(156 508)
Fees and commissions received		168 639	78 267
Fees and commissions paid		(91 521)	(36 660)
Net gain on financial assets available for sale		-	1 762
Net gain from foreign currency transactions		489 707	(145 933)
Other income		677	1 727
Other general and administrative expense and payroll expense paid		(144 993)	(117 147)
(Increase) decrease of operating assets			
Statutory reserves in the Central Bank of the Russian Federation		(17 027)	(131)
Due from banks		27 240	(284 489)
Accounts receivable under REPO agreements		(355 741)	(1 101 665)
Positive fair value of derivative financial instruments		10 563	11 171
Financial assets available for sale		105 065	1 027 471
Loans to customers		27 090	45 112
Other assets		(3 277)	(2 548)
Increase (decrease) of operating liabilities			
Negative fair value of derivative financial instruments		(16 097)	(529)
Due to banks		834	(11)
Accounts payable under REPO agreements "		(392 107)	(425 742)
Current accounts and deposits from customers		607 251	1 526 321
Debt liabilities issued		(18 464)	-
Other liabilities		13 311	133
Net cash flow from operating activities before income tax		472 612	635 399
Income tax paid		(4 691)	578
Net cash flow from operating activities		467 921	635 977
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(47 199)	(5 103)
Net cash flow from investing activities		(47 199)	(5 103)
Net increase (decrease) of cash and cash equivalents		420 722	630 874
Effect of fluctuation in exchange rates of cash and cash equivalents		(418 529)	274 987
Cash and cash equivalents as at the beginning of the year		1 843 678	937 817
Cash and cash equivalents as of the end of the year	11	1 845 871	1 843 678

The accompanying Notes are an integral part of this Statement of Profit and Loss and Other Comprehensive Income.

These financial statements were approved by the Bank's Management Board on 11 April 2017 and were signed on their behalf by:


 I.B. Ionova
 Chairman of the Board




 L.S. Grigorenko
 Chief Accountant

STATEMENT OF CHANGES IN EQUITY FOR FY 2016

STATEMENT OF CHANGES IN EQUITY FOR FY 2016

In thousands of Russian roubles

	Share Capital	Additional Capital	Reserve for revaluation of financial assets available for sale	Retained Earnings (accumulated loss)	Total
Balance as at 1 January 2015	702 762	685 811	(25 868)	(270 161)	1 092 544
Total comprehensive income					
Profit for the year	-	-	-	54 752	54 752
Other comprehensive income					
Net change in fair value of financial assets available for sale less deferred income tax	-	-	1 912	-	1 912
Net change in fair value of financial assets available for sale transferred to profit or loss less deferred income tax	-	-	(1 410)	-	(1 410)
Total other comprehensive income	-	-	502	-	502
Total comprehensive income for the year	-	-	502	54 752	55 254
Balance as at 1 January 2016	702 762	685 811	(25 366)	(215 409)	1 147 798
Total comprehensive income					
Profit for the year	-	-	-	89 938	89 938
Other comprehensive income					
Net change in fair value of financial assets available for sale less deferred income tax	-	-	31 962	-	31 962
Net change in fair value of financial assets available for sale transferred to profit or loss less deferred income tax	-	-	(6 384)	-	(6 384)
Other comprehensive loss	-	-	25 578	-	25 578
Total comprehensive income for the year	-	-	25 578	89 938	115 516
Unclaimed dividends	-	-	-	4 527	4 527
Balance as at 31 December 2016	702 762	685 811	212	(120 944)	1 267 841

The accompanying Notes are an integral part of this Statement of Profit and Loss and Other Comprehensive Income.

These financial statements were approved by the Bank's Management Board on 11 April 2017 and were signed on their behalf by:

I.B. Ionova

Chairman of the Board



[STAMP]

L.S. Grigorenko

Chief Accountant

1. NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

INTRODUCTION

Organizational Structure and Principal Activities

Public Joint Stock Company BEST EFFORTS BANK (hereinafter referred to as “the Bank”) was founded by the decision of its shareholders as an open joint stock company on the 3 of October 1990. The Bank is located at 38/1 Dolgorukovskaya str., Moscow 127006. The Bank operates on the basis of license № 435 issued by the Central Bank of the Russian Federation (hereinafter referred to as “the Central Bank”).

As at 1 January 2017, the Bank was controlled by the Non-Commercial Partnership of RTS’ financial market development. Non-Commercial Partnership of RTS’ financial market development is a membership non-commercial organization founded by legal entities with the purpose of assisting its members in ensuring the effective functioning of financial markets.

The Bank is a member of the Association of the RTS Nonprofit Partnership, the National Association of Stock Market Participants, the Association of Regional Banks of Russia. RAEX (Expert RA) rating agency upgraded the credit rating of the Bank to the level of A + (I). The rating has a stable outlook, which means a high probability of maintaining the rating in the medium term.

PJSC Best Efforts Bank was registered on the website of the Internal Revenue Service (IRS) in the status of "a Participating Foreign Financial Institution" and was assigned the Global Intermediary Identification Number (GIIN): B57WNA.99999.SL.643.

The Internal Revenue Service (IRS) has assigned to PJSC Best Efforts Bank the identification number of a qualified intermediary (QI-EIN) 98-0242949. (The IRS is a government agency of the US federal government that collects taxes and monitors compliance with tax legislation.)

As part of the agreements concluded with the IRS FATCA- and QI-agreements, the Bank annually reports in accordance with the requirements of the US laws.

In March 2016, the Bank adopted a new version of the Regulation on the Compliance with US legislation on taxation of foreign accounts (FATCA).

The Bank participates in the Russian state deposit insurance program from the 26th of August 2005.

The Bank does not have any branches or subsidiaries. As at 31 December 2016, the Bank had one structural unit:

- additional *Central* office: 38/1 Dolgorukovskaya str., Moscow 127006.

All assets and liabilities of the Bank are located in the Russian Federation.

As at 31 December 2016, the Bank's average headcount was 50 employees (31 December 2014: 43 employees).

Operating Environment

The Banks operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to economic and financial risks at the markets of the Russian Federation, which display characteristics of a developing market. The legal and regulatory framework of the Russian Federation continues to develop, but is subjects to varying interpretations and frequent changes, which together other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

During 2016, the Central Bank pursued a moderately tight monetary policy aimed at slowing the inflation. At the same time, the Central Bank took into account the economic situation and the need to ensure financial stability. At the end of the year, the inflation rate was 5.4%, consumer prices increased by 7.1% on average during the year (in 2015 - 12.9% and 15.5% respectively).

The decline in the assets of the banking sector is continuing. In 2016, the total assets of the banking sector decreased by 3.5% to 80.1 trillion Roubles. The decline in assets was accompanied by an overall improvement in their structure.

The quality of the loan portfolio is improving – overdue loans in Roubles and in foreign currencies continue to decrease. In 2016, the aggregate volume of loans in the economy decreased by 6.9%, including loans to non-financial organizations - by 9.5%. At the same time, loans to individuals for this period increased by 1.1%.

Banks' resource base sources have significantly increased due to individuals' deposits, the growth rate of which showed a positive trend in the last 3 months of 2016. During 2016, the volume of deposits of individuals grew by 4.2%, while the volume of deposits and funds on the accounts of organizations decreased by 10.1%.

Reserves for possible losses have increased since the beginning of the year by 3.5% or by 188 billion rubles. For the same period of 2015, this indicator increased by 33.4% or by 1,352 billion Roubles.

In 2016, the world financial markets were characterized by multidirectional trends, which were predetermined by serious changes in world politics. In particular, these include both the UK's withdrawal from the EU and the election of a new US president. At the end of 2016, the official exchange rate of the US dollar to the Rouble decreased by 17%, to 60.6569 RBL per USD as of 01.01.2017, the euro to the Rouble rate - by 20%, to 63.8111 RBL per Euro, the value of the dual currency basket decreased by 18% to 62.063 rubles.

In 2016, in view of the limited access of Russian companies and banks to international capital markets, the Bank of Russia continued to refinance credit institutions in foreign currency to ensure the stable functioning of the banking sector and maintain a stable situation in the foreign exchange market.

The accompanying financial statements reflect Management's assessment of the possible impact of the current business environment on the operations and financial position of the Bank. The further business environment may differ from Management's assessment.

2. BASIS OF PRESENTATION

The Bank maintains its accounting records in compliance with the requirements of the effective laws of the Russian Federation. These financial statements have been prepared on the basis of these accounting records with adjustments required to bring them, in all material respects, in line with the IFRS.

Applied Standards

These financial statements of the Bank are prepared in accordance with the requirements of the International Financial Reporting Standards (hereinafter – “IFRS”).

Basis of Measurement

These financial statements are prepared on a historical cost convention, except financial instruments that are measured at fair value, the changes in which are reflected in profit or loss for the period, and financial assets available for sale that are stated at fair value.

Functional and Presentation Currency

The functional currency of the Bank is the Russian Rouble. Being the national currency of the Russian Federation it reflects best of all the economic essence of the majority of the Bank's operations and the underlying circumstances relevant to them.

The Russian Rouble is also the presentation currency for these financial statements.

All figures in these financial statements are rounded to the whole thousands of Roubles.

Accounting Estimates and Judgements

Preparation of financial statements in accordance with IFRS requires Management to make judgments and use estimates and assumptions that influence the applied accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from such estimates

Estimates and the underlying assumptions are reviewed on the regular basis. Adjustments in estimates are recognized in the reporting period when the relevant estimates are reviewed, and in any subsequent periods that are effected by them.

Note 15 discloses information about the significant uncertainties and critical judgments concerning the application of accounting policies to loan impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies that were applied in the preparation of these financial statements are described below.

Foreign Currencies

Foreign currency transactions are translated into the Bank's functional currency at the exchange rates that are effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated into the functional currency at the exchange rate that is effective at the reporting date. Profit and loss from operations with monetary assets and liabilities denominated in foreign currency is the difference between the amortized cost in the functional currency as of the beginning of the period adjusted for the amount of interests accrued at the effective interest rate and payments made during the period and amortized cost in the foreign currency translated into the functional currency at the exchange rate that is effective at the end of the reporting period. Exchange differences arising on the translation into foreign currency are recognized in profit or loss, except for the differences arising on translation of equity financial instruments available for sale, or cash flows that qualify for hedging transactions that are recognized in other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, cash at the Central Bank on the Nostro accounts, Nostro accounts at other banks, short-term deposits at the Central Bank and short-term deposits at other banks with maturity of 3 months or less. Statutory reserves in the Central Bank are not considered to be cash and cash equivalents because of the restrictions of their use.

Financial Instruments

Classification

Financial instruments at fair value the changes in which are reflected in profit or loss for the period are financial assets and liabilities that are:

- acquired principally for the purpose of selling or repurchasing in the nearest future;
- part of the portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making;
- derivative financial instruments (except for derivative financial instruments that are effective hedging instruments); or
- designated as measured at fair value through profit or loss upon initial recognition.

The Bank may designate financial assets and liabilities as measured at fair value through profit or loss where either:

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

All trading derivative financial instruments with positive fair value, as well as options purchased, are reported as assets. All trading derivative financial instruments with negative fair value, as well as options written, are recorded as liabilities.

Management determines the appropriate classification of financial instruments upon initial recognition. Derivative financial instruments and financial instruments classified as measured at fair value through profit or loss are not reclassified out of measured at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of measured at fair value through profit or loss or available for sale categories, if the Bank has an intention and ability to hold it for foreseeable future or until their maturity. Other financial instruments may be reclassified out of measured at fair value through profit or loss or available for sale categories in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to reoccur in the nearest future.

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

- intends to sell immediately or in the near term;
- upon initial recognition designates as measured at fair value through profit or loss;
- upon initial recognition designates as available for sale; or
- may not recover substantially all of its initial investment, other than because of loan impairment.

Investment held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has an intention and ability to hold until maturity, other than those that:

- the Bank upon initial recognition designates as measured at fair value through profit or loss;
- the Bank designates as available for sale; or
- meet the definition of loans and receivables.

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, investment held to maturity, or financial instruments measured at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial instruments are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, at the case of a financial asset or liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

After initial recognition financial assets, including derivative financial assets that are assets, are measured at their fair values without any deductions of transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest rate method;
- investments held to maturity that are measured at amortized cost using the effective interest rate method;
- equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, are measured at amortized cost.

Amortized Cost

Amortized cost of a financial asset or liability is the cost of the assets or liability upon initial recognition net of principle paid adjusted for the amount of accrued amortization the difference between the initially recognized cost and the cost at the settlement date, using the effective interest rate method net of impairment losses. Premiums and discounts, including initial transaction costs, are included into the carrying amount of the related instrument and are amortized on the basis of the effective interest rate of this instrument.

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Profit and Loss on Subsequent Remeasurement

Profit and loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- profit and loss on a financial instrument classified as measured at fair value through profit or loss is recognized in profit or loss;
- profit and loss on a financial asset available for sale is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available for sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest income on a financial asset available for sale is recognized when it arises in profit or loss using the effective interest rate

For financial assets and liabilities measured at amortized cost, profit and loss is recognized in profit and loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, but does not retain the control over the financial asset. Any interest in the transferred financial asset that satisfies the requirements for derecognition owned by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

The Bank enters into transactions whereby it transfers assets recognized in the statement of financial position, but retains all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

If in transfer of an asset the Bank retains the control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank also derecognizes and writes off assets that are deemed to be uncollectable.

Repurchase and Reverse Repurchase Agreements

Securities sold in repurchase and reverse repurchase transactions (hereinafter – “REPO agreements”) are accounted for as financing transactions secured by collateral where the securities continue to be recognized in the statement of financial position, and liabilities to counterparties included into accounts payable under REPO agreements are recorded within amounts owed credit institutions or amounts owed to customers, as appropriate. The difference arising from pricing spreads for the underlying securities is considered to be interest expense and is recognized in profit or loss over the period that the related REPO agreement is open using the effective interest rate method.

Securities acquired in repurchase and reverse repurchase transactions are accounted for as due from credit institutions or loans to customers, as appropriate. Any related income arising from pricing spreads for the underlying securities is recognized as interest income over the period that the related REPO agreement is open using the effective interest rate method.

If assets acquired under REPO agreements are sold to third parties, the obligation to return securities is recorded as a trading liability and is measured at fair value.

Derivative Financial Instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and securities, as well as any combination of these instruments.

Derivatives are initially recognized at fair value as of the date of the transaction, and are subsequently remeasured at fair value. All derivative financial instruments are recoded as assets, if their fair value is positive, and as liabilities, if their fair value is negative.

Changes in the fair value of derivative financial instruments are recognized immediately in profit or loss.

Derivatives may be embedded into other contractual agreement (“host contract”). An embedded derivative is separated from the host contract and is accounted for as a separate derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in the fair value recognized in profit or loss. Derivative financial instruments embedded in financial assets and liabilities measured at fair value through profit or loss are not separated from a host contract.

In spite of the fact that the Bank carries out trading transactions with derivative financial instruments with the purpose of hedging risks, these transactions do not satisfy the criteria to be accounted for as hedging transactions.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Property, Plant and Equipment

Freehold Assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment

Leased Assets

Lease, which transfers substantially all risks and rewards of ownership to the Bank, is classified as a finance lease. Items of property, plant and equipment acquired as part of finance lease are recognized at the lower of the fair value of the asset and the present value of the minimum lease payment as of the date of the lease start less accumulated depreciation of impairment losses.

Depreciation

Depreciation is provided to write off the cost on a straight-line basis over the estimated useful life of an asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows

- | | |
|--|---------------------|
| - buildings and permanent improvements | from 10 to 50 years |
| - furniture and equipment | from 5 to 20 years |
| - computers and office equipment | from 2 to 5 years |

Intangible Assets

Intangible assets are recognized at historical cost less accumulated depreciation and impairment losses.

Costs attributes to acquisition of licenses for special software and its implementation are capitalized in the cost of the respective intangible asset.

Depreciation is provided to write off the cost on a straight-line basis over the estimated useful life of the asset and is recorded in profit or loss. Intangible assets are of limited and unlimited useful life. Intangible assets of limited useful life are amortized during the term of their beneficial use. Useful lives of intangible assets vary from 3 to 5 years.

Impairment

At the end of each reporting period, the Bank reviews its financial assets or a group of financial assets for impairment. If there is any evidence of impairment, the Bank assesses the losses from impairment.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a financial asset (occurrence of losses) and if that event has had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or provisions, restructuring of a financial asset or a group of financial assets on conditions that the Bank would not otherwise consider, indicators that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of a collateral, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with the defaults in the group.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its historical cost is objective evidence of impairment.

Financial Assets Carried at Amortized Cost

Financial assets carried at amortized cost consist principally of loans and other receivables. The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a loan or receivable (occurrence of losses) and if that event has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or provisions, restructuring of a financial asset or a group of financial assets on conditions that the Bank would not otherwise consider, indicators that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of a collateral, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with the defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment

exists for an individually assessed loan or receivable, whether significant or not, it includes a loan into the group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included into the collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related provision for loan impairment. The Bank writes off a loan balance (and any related provisions for impairment losses) when Management determines that the loans are uncollectable and when all necessary steps to collect the loan are completed.

Financial Assets Carried at Cost

Financial assets carried at cost include unquoted equity instruments included in investments available-for-sale that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Financial Assets Available for Sale

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in the provision for impairment related to the time value of money are recognized as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal

recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-Financial Assets

Other nonfinancial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of nonfinancial assets is the greater of their fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

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

Provisions

Provisions are recognized in the statement of financial position when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit Related Commitments

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

Financial guarantees issued by the Bank represent an obligation to pay a certain amount to a beneficiary as a compensation of loss, incurred as a result of the debtor's failure to make payment when due in accordance with the terms of the financial instrument.

Such guarantees are initially recognized at fair value less transaction costs and are subsequently measured at the higher of created provision and initial cost less, where applicable, accumulated amortization of commission income, received under the financial guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Loan commitments are not recognized, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

Share Capital

Share capital contributed before 1 January 2003 is recognized at the cost adjusted with account of inflation. Charter capital contributed after 1 January 2003 is recognized at the historical cost.

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference Shares

Preference shares that are not subject to repurchase and do not include dividends are classified as equity.

Repurchase of Shares

If the Bank repurchases its own shares, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The right of the bank to declare and pay dividends is regulated by the effective laws of the Russian Federation.

Dividends on ordinary shares are accounted for by deduction from the retained earnings when they are declared.

Taxation

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

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for assets and liabilities the initial recognition of which affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income and Expense Recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Fees and commissions are recognized in profit or loss when the corresponding service is provided.

Net income from transaction with financial assets measured at fair value through profit or loss includes profit or loss from sale and change of fair value of such financial assets and liabilities measured at fair value through profit or loss.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment Reporting

Strategic business lines of the Bank, with separate management procedures, are oriented to different customer groups and existing product specialization.

The Bank's global business line is focused on investment banking and customer service - legal entities related to professional securities market participants, for performing all types of operations in financial and foreign exchange markets, including the interbank market, the purpose of which is to generate profit.

The Bank's divisions are not independent business lines involved in other commercial activities except for banking. Operations of the Bank and its assets are mainly located in the Russian Federation, and the Bank does not have clients with revenues exceeding 10% of the total revenues.

Presentation of Comparative Data

Comparative figures have been reclassified to reflect changes in the presentation of financial statements in the current year.

The balances on the broker's accounts and funds for stock exchange transactions in the amount of 1,508,778 thousand Roubles were reclassified from the item *Cash and cash equivalents* to *Funds due from Banks and other Financial Institutions*, because of risks of creating due to the availability of reserves for these balances as of 31 December 2016.

	2015 (before the review)	Adjustments	2015 (adjusted)
Cash and cash equivalents	2 130 237	(286 559)	1 843 678
Due from banks and other financial institutions	2 868	286 559	289 427

New Standards and Interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank is planning to adopt these standards, amendments and clarifications when they become effective.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing IFRS (IAS 39 *Financial Instruments: Recognition and Measurement*). IFRS 9 includes a revised guidance on the classification and measurement of financial assets, including a new model of expected credit losses for impairment assessment and new general requirements for hedge accounting. Also, the new standard retains guidance on the recognition and derecognition of financial instruments adopted in IAS 39. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018 and is subject to retrospective application, with some exceptions. Early application of the standard is allowed. The Bank does not intend to apply this standard early. The Bank is in the process of assessing the possible impact of IFRS 9 on its financial statements.
- IFRS 15 *Revenue from Contracts with Customers* establishes a general framework of principles to determine whether revenue should be recognized, in what amount and when. The standard supersedes the current guidance on revenue recognition, including IAS 11 *Construction Contracts*, IAS 18 *Revenue* and the clarification of IFRIC 13 *Customer Loyalty Programs*. The fundamental principle of the new standard is that the enterprise recognizes revenue in order to reflect the transfer of the promised goods or services to customers in an amount corresponding to the refund for which the enterprise, in accordance with its expectations, will receive the right in exchange for these goods or services. The new standard provides for detailed disclosure of revenue, includes guidance on accounting for transactions that were not previously fully considered, and also improves the agreement accounting guide, which consists of many elements. IFRS 15 becomes effective for annual periods beginning on or after 1 January 2018. Early application of the standard is allowed. The Bank does not intend to apply this standard early. The Bank is in the process of assessing the possible impact of IFRS 15 on financial statements.
- IFRS 16 *Leases* replaces the current guidance on accounting for leases, including IAS 17 *Leases*, IFRIC 4, *Determining whether an Agreement Contains a Lease*, Clarification of the SIC 15 *Operating Rent Incentives* and Clarification of the SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. The new standard abolishes the double accounting model currently used in the lessee's account. This model requires the classification of leases for financial leases recorded on the balance sheet and operating leases that are accounted for off the balance sheet. Instead, it introduces a single accounting model, which reflects a lease on the balance sheet and has a similarity to the current accounting for financial leases. For the lessors, the accounting rules currently in force, are generally preserved - the lessors will continue to classify the leases into financial and operating leases. IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early adoption of the standard is allowed provided that IFRS 15 *Revenue from Contracts with Customers* will also be applied. The bank does not intend to apply this standard early. The Bank is in the process of assessing the possible impact of IFRS 16 on its financial statements.

The following new standards or amendments to standards are not expected to have a significant impact on the Bank's financial statements.

- *Revision of Disclosure Requirements (Amendments to IAS 7 Statement of Cash Flows)*
- Recognition of deferred tax assets for future unused tax losses (Amendments to IAS 12 *Income Taxes*)
- Classification and valuation of share-based payment transactions (Amendments to IFRS 2 *Share-based Payments*)

The Bank has not yet analyzed the possible impact of these changes on its financial statements.

4. INTEREST INCOME AND EXPENSE

	2016 год	2015 год
Interest income		
Financial assets available for sale	111 788	144 115
Accounts receivable under REPO agreements "	47 696	26 602
Cash and cash equivalents	17 548	21 306
Loans to customers	4 513	3 214
	181 545	195 237
Interest expense		
Current accounts and deposits from customers	(76 296)	(54 416)
Accounts payable under REPO agreements	(45 113)	(103 133)
Certificates of deposit and promissory notes	(1 400)	(2 082)
	(122 809)	(159 631)

5. FEE AND COMMISSION INCOME

	2016 год	2015 год
Brokerage	156 189	67 261
Accounts maintenance and servicing	3 459	2 563
Bank guarantees issued	880	4 099
Other	8 111	4 644
	168 639	78 567

6. FEE AND COMMISSION EXPENSE

	2016 год	2015 год
Brokerage	(71 654)	(32 994)
Foreign currency transactions	(13 187)	(1 009)
Settlements	(1 869)	(1 268)
Other	(4 878)	(1 559)
	(91 588)	(36 830)

7. NET INCOME FROM FOREIGN CURRENCY TRANSACTIONS

	2016 год	2015 год
Profit (loss) from spot transactions and derivatives	79 241	(88 428)
Loss (profit) from revaluation of financial assets and liabilities	(342 116)	261 392
Profit (loss) from foreign exchange transactions	420 597	(63 588)
	<u>157 722</u>	<u>109 376</u>

8. RECOVERY (CREATION) OF PROVISIONS FOR IMPAIRMENT

	2016 год	2015 год
Due from banks and other financial institutions (Note 12)	(20 868)	-
Loans issued to customers (Note 15)	(1 512)	582
Other assets (Note 16)	(4 654)	178
	<u>(27 034)</u>	<u>760</u>

9. OTHER GENERAL AND ADMINISTRATIVE EXPENSE

	2016 год	2015 год
Salaries	88 455	70 383
Taxes and social security costs	19 108	17 068
Taxes other than on income	12 949	3 833
Technical maintenance of PP&E	10 649	6 119
Information and telecommunication services	6 026	3 208
Depreciation and amortization	5 864	2 992
Operating lease	3 969	3 924
Inventory costs write off	2 594	2 463
Professional services	514	375
Security	226	226
Insurance	214	1 985
Other	10 514	11 028
	<u>161 082</u>	<u>123 604</u>

10. INCOME TAX EXPENSE

	2016 год	2015 год
Current income tax expense	25 545	12 612
Changes in deferred tax liabilities due to temporary differences and changes in contingency provision	195	-
Total income tax expense	<u>25 740</u>	<u>12 612</u>

In 2016, the applicable income tax rate for current and deferred tax in the Russian Federation is 20% (2015: 20%).

Calculation of the effective income tax rate

	<u>2016 год</u>	<u>%</u>	<u>2015 год</u>	<u>%</u>
Profit (loss) before tax	<u>115 678</u>		<u>67 364</u>	
Income tax calculated using the effective interest rate	(23 136)	(20,0)	(13 473)	(20,0)
Costs not decreasing taxable profit	(339)	(0,3)	(121)	(0,2)
Income taxed at a lower rate	1 520	1,3	137	0,2
Changes in unrecognized deferred tax asset	<u>(3 785)</u>	<u>(3,3)</u>	<u>845</u>	<u>1,3</u>
	<u>(25 740)</u>	<u>(22,3)</u>	<u>(12 612)</u>	<u>(18,7)</u>

Income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities recognized in the financial statements and the amounts used for the calculation of the tax base result in deferred tax assets as of 31 December 2016 and 31 December 2015.

Deferred tax benefits can be received only if the Bank will receive income against which unused tax loss can be offset, and if there will be no changes in the Russian laws that will impede the Bank from using these tax benefits in future periods. Deferred tax assets are not reflected in the financial statements because of the uncertainty that they can be received.

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

Tax effect from temporary differences as at 31 December 2016 is shown below:

	Balance as at 1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2016
Due from banks and other financial institutions	-	4 260	-	4 260
Positive fair value of derivative financial instruments	(2 002)	(1 506)	-	(3 508)
Financial assets available for sale	625	3 290	(6 395)	(2 480)
Customer loans	117	(1)	-	116
Property, plant and equipment	-	(1 607)	-	(1 607)
Other assets	403	803	-	1 206
Negative fair value of derivative financial instruments	3 219	(1 737)	-	1 482
Other liabilities	195	141	-	336
Unrecognized deferred tax asset	(2 557)	(3 785)	6 342	-
	-	(142)	(53)	(195)

Tax effect from temporary differences as at 31 December 2015 can be shown as follows:

	Balance as at 1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2015
Positive fair value of derivative financial instruments	-	(2 002)	-	(2 002)
Financial assets available for sale	(162)	913	(126)	625
Customer loans	134	(17)	-	117
Property, plant and equipment	493	(493)	-	-
Other assets	2 716	(2 313)	-	403
Negative fair value of derivative financial instruments	-	3 219	-	3 219
Other liabilities	347	(152)	-	195
Unrecognized deferred tax asset	(3 528)	845	126	(2 557)
	-	-	-	-

Tax effect on components of other comprehensive income for 2016 and for 2015 can be shown as follows:

	2016			2015		
	Profit before tax	Income tax expense	Profit after tax	Profit before tax	Income tax expense	Profit after tax
Net change in fair value of financial assets available for sale	39 953	(7 991)	31 962	2 390	(478)	1 912
Net change in fair value of financial assets available for sale transferred to profit or loss	(7 980)	1 596	(6 384)	(1 762)	352	(1 410)
Other comprehensive income	31 973	(6 395)	25 578	628	(126)	502

11. CASH AND CASH EQUIVALENTS

	2016	2015
Cash	36 687	25 337
Nostro accounts at the Central Bank of the Russian Federation	252 827	574 465
Nostro accounts at other banks and financial institutions	1 556 357	1 243 876
	1 845 871	1 843 678

Cash and cash equivalents are neither impaired nor past due.

As at 31 December 2016 the Bank has two contracting parties (31 December 2015: two contracting parties) which hold over 10% of capital. As at 31 December 2016, the total balances of these contracting parties were RUB 1 799 102 thousand (31 December 2015: RUB 2 008 630 thousand).

12. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
Broker's account	202 010	248 698
Funds for transactions on the exchange	27 306	37 861
Loans and deposits	2 004	2 868
Due from banks and other financial institutions before the deduction of the provision for impairment	231 320	289 427
Provision for impairment	(20 868)	-
	210 452	289 427

13. ACCOUNTS RECEIVABLE ON REPO AGREEMENTS

As at 31 December 2016, accounts receivable on REPO agreements (RUB 1 462 841 thousand) were secured by highly liquid debt and equity securities for RUB 1 498 279 thousand (31 December 2015 the outstanding amounts on REPO transactions (RUB 1 107 001 thousand) were secured by highly liquid debt and equity securities for RUB 1 260 800 thousand).

14. FINANCIAL ASSETS AVAILABLE FOR SALE

	2016	2015
Owned by the Bank		
Debt instruments and other fixed income instruments		
- Bonds of the Government of the Russian Federation		
- Bonds of the Government of the Russian Federation	19 699	41 624
Total bonds of the Government of the Russian Federation	19 699	41 624
- Corporate bonds		
rated from BBB- to BBB+	20 101	816 529
rated from BB- to BB+	477 489	-
rated below B+	209 801	-
Total corporate bonds	707 391	816 529
Equity instruments		
- Corporate shares	107 886	103 580
Total equity instruments	107 886	103 580
	834 976	961 733
Pledged under REPO agreements		
- Bonds of the Government of the Russian Federation		
- Bonds of the Government of the Russian Federation	228 464	31 839
Total bonds of the Government of the Russian Federation	228 464	31 839
- Corporate bonds		
rated from BBB- to BBB+	-	153 843
Total corporate bonds	-	153 843
Equity instruments		
- Corporate shares	6 459	19 224
Total equity instruments	6 459	19 224
	234 923	204 906

Financial assets available for sale are neither past due nor impaired.

15. CUSTOMER LOANS

	2016	2015
Loans to legal entities		
Loans to small and medium entities	-	30 000
Total loans to legal entities	-	30 000
Loans to retail customers		
Consumer loans	16 132	13 363
Total loans to retail customers	16 132	13 363
	16 132	43 363
Gross loans to customers		
Provision for impairment	(1 812)	(300)
Loans to customers less provision for impairment	14 320	43 063

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

Analysis of changes in provisions for impairments of loans to customers for 2016 and 2015 is given in the table below:

	31 December 2016	31 December 2015
Provision for impairment as at the beginning of the year	300	882
Net (recovery) creation of provision for impairment	1 512	(582)
Loans to customers write off	-	-
Provision for impairment as at the end of the year	1 812	300

Credit quality of customer loans

The following table provides information on the credit quality of customer loans as at 31 December 2016:

	Loans before deduction of impairment provision	Provision for impairment	Loans after deduction of impairment provision	Provision for impairment vs loans before deduction of impairment provision (%)
Retail loans				
Consumer loans				
Loans without individual indicators of impairment	16 132	(1 812)	14 320	11,23
Total retail loans	16 132	(1 812)	14 320	11,23
Total customer loans	16 132	(1 812)	14 320	11,23

The following table provides information on the credit quality of customer loans as at 31 December 2015:

	Loans before deduction of impairment provision	Provision for impairment	Loans after deduction of impairment provision	Provision for impairment vs loans before deduction of impairment provision (%)
Corporate loans				
Loans to small and medium enterprises				
Loans without individual indicators of impairment	30 000	(300)	29 700	1,00
Total loans to small and medium enterprises	30 000	(300)	29 700	1,00
Retail loans				
Consumer loans				
Loans without individual indicators of impairment	13 363	-	13 363	0,00
Total retail loans	13 363	-	13 363	0,00
Total loans to customers	43 363	(300)	43 063	0,69

Key assumptions and judgements used to assess loan impairment

Corporate Lending

Impairment of a loan takes place as a result of one or several events that happen after initial recognition of the loan and influence the estimated future cash flows from the loan that can be reliably measured. For loans that do not have individual indicators of impairment, there is no objective evidence of impairment that can be related directly to them.

Objective evidence of impairment of loans issued to legal entities include:

- overdue payments under loan agreements;
- significant deterioration of the borrower's financial position;
- deterioration of economic situation, negative changes in the markets where the borrower operates;
- restructuring of a loan on conditions that the Bank would not otherwise consider.

The Bank assess the amount of provision for impairment of loans issued to legal entities on the basis of its past loss experience for such types of loans.

As at 31 December 2016, there were no corporate loans. (As at 31 December 2015, significant assumptions used by management in determining the provision for impairment of loans issued to corporate customers include the assumption that the annual level of actual losses incurred is 1.00%).

Retail Lending

The Bank assess the amount of provision for impairment of retail loans on the basis of its past loss experience for such types of loans.

Significant assumptions used by Management in assessing the amount of provision for impairment of retail loans includes an assumption that as at 31 December 2016 the annual level of the actually incurred losses was 0.00%.

Changes in these estimates may affect the amount of the loan impairment provision. For instance, if the net present value of estimated future cash flows had changed for plus/minus three percent, as at 31 December 2016 the amount of the provision for impairment of retail loans would have been RUB 387 thousand lower/higher. (31 December 2015: RUB 387 thousand lower/higher.).

Collateral Analysis

As at 31 December 2016, there were no corporate loans.

The following table provides the analysis of corporate loans, net of impairment, by types of collateral as at 31 December 2015:

	Loans to customers, carrying amount	Fair value of collateral assessed as of the loan issuance date
No collateral	29 700	-
Total corporate loans	29 700	-

The tables above exclude overcollateralization.

The recoverability of loans issued to legal entities which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date. For most of the loans, the amounts presented in the table are higher, and are based on the fair value of collateral measured as of the loan issuance date.

For loans that are secured by several types of collateral, the type of collateral that is the most significant to assess impairment is disclosed. Guarantees and commitments from individuals, for instance, shareholders of borrowers-small and medium enterprises, is not taken into account for impairment assessment purposes. Therefore, such loans and loans that are not secured by collateral, or are partially covered by collateral are disclosed in *No collateral* category.

Retail Lending

The following table provides the analysis of the fair value of collateral for retail loans, net of impairment, by types of collateral as at 31 December 2016:

	Loans to customers, carrying amount	Fair value of collateral assessed as of the loan issuance date
No collateral	16 132	-
Total retail loans	16 132	-

The following table provides the analysis of the fair value of collateral for retail loans, net of impairment, by types of collateral as at 31 December 2015:

	Loans to customers, carrying amount	Fair value of collateral assessed as of the loan issuance date
No collateral	13 363	-
Total retail loans	13 363	-

The tables above exclude overcollateralization.

The Bank may assess the collateral on an individual basis as at the reporting date if any evidence of impairment arises. For the majority of the loans the information given in the table is based on the fair value of the collateral assessed as at the loan issuance date.

Industry and geographic analysis of the loan portfolio

Loans were issued primarily to customers located in the Russian Federation who operate in the following economic sectors:

	<u>2016</u>	<u>2015</u>
Financial services	-	30 000
Retail lending	16 132	13 363
	16 132	43 363
Impairment provision	(1 812)	(300)
	14 320	43 063

Significant credit exposures

As at 31 December 2016 and 2015, the Bank does not have any borrowers or groups of related borrowers, whose loan balances comprised over 10% of capital.

16. OTHER ASSETS

	<u>2016</u>	<u>2015</u>
Accounts receivable	4 467	2 940
Impairment provision	(4 467)	(2 822)
Total other financial assets	-	118
Advance payments	6 638	5 423
Other	1 007	316
Impairment provision	(1 569)	(65)
Total other nonfinancial assets	6 076	5 674
Total other assets	6 076	5 792

Analysis of changes in impairment provision

	<u>2016</u>	<u>2015</u>
Impairment provision as at the beginning of the year	2 887	3 675
Net (recovery) creation of impairment provision	4 654	(179)
Other assets write off	(1 505)	(609)
Impairment provision as at the end of the year	6 036	2 887

As at 31 December 2016, other assets include RUB 4 467 thousand of overdue receivable (31 December 2015: RUB 2 822 thousand).

17. ACCOUNTS PAYABLE UNDER REPO AGREEMENTS

	<u>2016</u>	<u>2015</u>
Banks and financial institutions	630 458	1 022 866
	630 458	1 022 866

As at 31 December 2016, the Bank pledged securities with the fair value of RUB 735 707 thousand as collateral for REPO agreements (31 December 2015: RUB 1 194 572 thousand).

18. CURRENT CUSTOMER ACCOUNTS AND DEPOSITS

	<u>2016</u>	<u>2015</u>
Current accounts and ondemand deposits		
- Retail customers	24 476	10 820
- Legal entities	1 582 642	603 104
Broker's accounts	1 007 883	792 503
Fixed-term deposits		
- Retail customers	10 075	7 056
- Legal entities	147 899	871 987
	<u>2 772 975</u>	<u>2 285 470</u>

As at 31 December 2016, the Bank has six customers whose balances comprised more than 10% of the capital (as at 31 December 2015: four customer). As at 31 December 2016, the total amount of balances of accounts and deposits of these clients was RUB 2 293 006 thousand (31 December 2015: RUB 1 549 274 thousand).

19. DEBT LIABILITIES ISSUED

	<u>2016</u>	<u>2015</u>
Debt liabilities issued	-	27 749
	<u>-</u>	<u>27 749</u>

20. OTHER LIABILITIES

	<u>2016</u>	<u>2015</u>
Trade payables	5 404	989
Total other financial liabilities	5 404	989
Payable under return of commission	17 081	1 328
Salaries	8 715	5 455
Other taxes payable	1 050	553
Dividends payable	-	4 553
Other non-financial liabilities	1 158	1 720
Total other non-financial liabilities	28 004	13 609
Total other liabilities	33 408	14 598

21. SHAREHOLDERS' EQUITY

Issued share capital and share premium

Registered, issued and circulating share capital of the Bank consists of 56,490,000 ordinary shares (31 December 2015: 56,490,000) and 100,000 preference shares (31 December 2015: 100,000). The nominal value of each ordinary share is 10 RUB, the nominal value of each preference share is 1 RUB.

The holders of ordinary shares are entitled to receive dividends as annually declared and are entitled to one vote per share at annual and other general meetings of the Bank's shareholders.

The holders of preference shares are entitled to receive dividends as annually declared at annual and other general meetings of the Bank's shareholders. The holders of preference shares do not

have voting rights at general meetings of the Bank's shareholders. Shareholders-holders of preference shares acquire voting rights at the general meeting of shareholders by the decision introducing amendments to the Bank's articles of association limiting the rights of shareholders-holders of preference shares.

	<u>31 December 2016</u>	<u>31 December 2015</u>
Nominal value of ordinary shares	564 900	564 900
Nominal value of preference shares	100	100
Inflation adjustment	<u>137 762</u>	<u>137 762</u>
Shareholders' equity	<u>702 762</u>	<u>702 762</u>

Dividends

Distributions to participants are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the requirements of the legislation of the Russian Federation as of the reporting date the amount available for distribution was RUB 143 721 thousand (31 December 2015: RUB 139 193 thousand).

22. RISK MANAGEMENT

In 2016, risk management at PJSC Best Efforts Bank was carried out in accordance with the scale and nature of the Bank's activities, as well as taking into account the recommendations of the Bank of Russia and the Basel Committee on Banking Supervision.

Risk management is at the core of banking activities and is an essential element of the Bank's operations. Market risk, credit risk and liquidity risk are the main risks the Bank's operations are exposed to.

The Bank establishes internal standards for transparency of information regarding risks as a basis for monitoring, setting limits and managing risks.

Risk management policies and procedures

Risk management processes are regulated by the Banking Risk Management Policy, which establishes the principles of the organization of the risk management system and establishes uniform management standards.

The Bank's policy in tackling the risks is aimed at identification, analysis and management of risks the Bank is exposed to, at establishment of risk limits and the relevant controls, as well as at regular assessment of the risk levels and the extent they correlate with the established risk limits. Risk management policies and procedures are reviewed at a regular basis in order to reflect the changes in the market situation and in the products and services offered by the Bank, as well as emerging best practices.

The Board of Directors is responsible for the appropriate functioning of the risk management controls, for managing key risks, for approving risk management policies and procedures, and for major transactions approval.

Risk assessment and management procedures are integrated into ongoing operations. These procedures are established by internal documents of the Bank.

As part of effective risk management, the Bank pays special attention to the distribution of powers and responsibilities between the Bank's structural units (employees of the Bank) and the Bank's management bodies for risk managing and their compliance with the requirements of the legislation of the Russian Federation, including statutory acts of the Bank of Russia.

The Board of Directors performs strategic management of the Bank, determines the main principles and approaches to the organization of the risk management and internal control system in the Bank, monitors the activities of the executive bodies, and also implements other key functions.

The Board of Directors is responsible for the formation and approval of the strategy and policy, the definition of overall long-term goals, objectives and priorities of the Bank, the principles of risk management of banking activities, as well as for the approval of major transactions.

The Management Board is responsible for the implementation of the risk management strategy and policy approved by the Bank's Board of Directors, establishing the order in which employees are motivated to identify risks when performing transactions, provides regular reviews of analytical materials on the assessment of banking risks at their meetings.

In order to implement risk regulating processes and risk management principles the Bank created the following Committees:

- Credit Committee;
- Assets and Liabilities Management Committee (hereinafter – “ALM Committee”).

The Bank comprises an independent structural division for risk management - the Risk Control Department, whose competence includes: timely identification and assessment of banking risks on a consolidated basis; analysis of risks (their factors, dynamics) and forecasting the level of risks; timely informing the Bank's management of the risk levels; developing draft methods for assessment and risk management of banking activities; development and submission for consideration by the executive bodies of the credit organization of proposals for taking measures aimed at changing the level and structure of banking risks, including proposals for conducting hedging or other operations for redistribution of banking risks the credit institution is exposed to.

In order to improve the effectiveness of the decision-making process, the responsibility and authority for risk management are distributed among different divisions of the Bank

Both internal and external risk factors are identified and managed within the departments of the Bank. Attention is given to identification of the whole list of risk factors and determination of the sufficiency of the current risk minimizing procedures.

In its activities, the Bank is exposed to financial risks, including credit, market and liquidity risks.

Market Risk

Market risk is the risk that the Bank will incur financial losses due to changes in the current (fair) value of financial instruments of the Bank's trading portfolio and derivative financial instruments, as well as of foreign exchange rates and (or) accounting prices for precious metals.

Market risk includes interest rate risk, stock, currency and commodity risks.

Market risk management is carried out in order to avoid possible losses due to fluctuations in market prices; comply with the requirements of the Bank of Russia in ensuring the financial stability of the Bank; ensure compliance with the legitimate interests of the Bank and its clients when dealing with market instruments.

ALM Committee is responsible for market risk management. ALM Committee approves internal market risk norms on the basis of risk tackling recommendations and suggestions made by the Risk Control Department.

The Bank manages its market risk by setting open position limits in relation to the size of portfolio of certain financial instruments, terms of interest rate change, currency position, loss limits and by regular monitoring of compliance with them, the results of which are reviewed and approved by the Management Board.

Interest rate risk

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as 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, %		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Interest bearing assets						
Due from other banks and financial institutions	-	-	-	8,0%	-	-
Accounts receivable under REPO agreements	10,5%	1,9%	-	11,1%	-	-
Financial assets available for sale	11,0%	-	-	13,3%	-	-
Customer loans	16,8%	-	-	18,0%	-	-
Interest bearing liabilities						
Accounts payable under REPO agreements	9,0%	0,7%	-	10,9%	-	-
Interest bearing liabilities	7,5%	0,03%	0,01%	10,8%	0,4%	0,1%
- Fixer-term deposits	-	-	-	9,5%	-	-
Debt liabilities issued	-	-	-	-	-	-

Interest rate sensitivity analysis

Interest rate risk management based on the analysis of the term when interest rates are reviewed is supplemented by monitoring the assets and liabilities sensitivity. An analysis of sensitivity of profit or loss and equity (less taxes) to changes in the interest rates (repricing risks) based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2016 and 2015 is as follows:

	2016	2015
100 bp parallel decrease	(6 037)	9 092
100 bp parallel increase	6 037	(9 092)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of debt financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2016		2015	
	Net profit or loss	Equity	Net profit or loss	Equity
100 bp parallel decrease	-	5 784	-	6 975
100 bp parallel increase	-	(5 784)	-	(6 975)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates and/or precious metals rates for positions held by the Bank in foreign currencies and / or precious metals.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2016:

	RUB	USD	EUR	Other	Total
ASSETS					
Cash and cash equivalents	315 856	308 146	1 202 936	18 933	1 845 871
Statutory reserves with the Central Bank of the Russian Federation	28 636	-	-	-	28 636
Due from banks and other financial institutions	195	188 067	21 225	965	210 452
Accounts receivable under REPO agreements	1 462 820	21	-	-	1 462 841
Positive fair value of derivative financial instruments	15 931	-	1 609	-	17 540
Financial assets available for sale	999 481	70 347	71	-	1 069 899
Customer loans	14 320	-	-	-	14 320
Total assets	2 837 239	566 581	1 225 841	19 898	4 649 559
LIABILITIES					
Negative fair value of derivative financial instruments	2 599	4 810	-	-	7 409
Due to banks and other financial institutions	636	-	-	-	636
Accounts payable under REPO agreements "	623 844	6 614	-	-	630 458
Current customer accounts and deposits	1 796 316	934 381	23 390	18 888	2 772 975
Other financial liabilities	5 404	-	-	-	5 404
Total liabilities	2 428 799	945 805	23 390	18 888	3 416 882
Effect of derivative financial instruments expressed in foreign currencies	841 619	371 670	(1 203 158)	-	10 131
Net position	1 250 059	(7 554)	(707)	1 010	1 242 808

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

The foreign currency exposure structure of assets and liabilities by currency as at 31 December 2015 is as follows:

	RUB	USD	EUR	Total
ASSETS				
Cash and cash equivalents	596 110	265 342	982 226	1 843 678
Statutory reserves with the Central Bank of the Russian Federation	11 609	-	-	11 609
Due from banks and other financial institutions	236 309	53 118	-	289 427
Accounts receivable under REPO agreements	1 106 905	96	-	1 107 001
Positive fair value of derivative financial instruments	-	656	9 907	10 563
Financial assets available for sale	1 089 486	77 153	-	1 166 639
Loans to customers	43 063	-	-	43 063
Other financial assets	118	-	-	118
Total assets	3 083 600	396 365	992 133	4 472 098
LIABILITIES				
Negative fair value of derivative financial instruments	15 873	224	-	16 097
Accounts payable under REPO agreements	1 003 336	19 530	-	1 022 866
Current customer accounts and deposits	1 929 698	329 061	26 711	2 285 470
Debt liabilities issued	27 749	-	-	27 749
Other financial liabilities	989	-	-	989
Total liabilities	2 977 645	348 815	26 711	3 353 171
Effect of derivative financial instruments expressed in foreign currencies	996 859	(47 622)	(954 771)	(5 534)
Net position	1 102 814	(72)	10 651	1 113 393

The weakening of the Russian Rouble, as indicated below, against the following currencies at 31 December 2016 and 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016	2015
10% appreciation of USD against RUB	(604)	(6)
10% appreciation of EUR against RUB	(57)	852

The strengthening of the Russian Rouble against the above currencies at 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the risk of financial losses of the Bank if a customer or counterparty fails to meet its contractual obligations. The bank manages its credit risk through approved policies and procedures that include requirements to establish and observe credit risk concentration limits, as well as through creation of the Credit Committee and ALM Committee that are responsible for making decisions on credit risk regulation and for control over compliance with internal limits and norms. Key elements of

effective credit risk management were a developed credit policy and procedures, portfolio management, effective control over loans.

The credit policies of the Bank, as well as amendments to these policies, are considered by the Credit Committee and the Management Board, and are approved by the Bank's Board of Directors.

The credit policies regulates the Bank's credit operations and other operations containing the credit risk (hereinafter – "the credit operations") that are carried out with retail and corporate clients, including different kinds of short-term and long-term lending, issue of guarantees and letters of credit, acceptance of guarantees as collateral for liabilities of corporate clients, acceptance of letters of credit.

Credit policies cover transactions exposed to credit risk with financial institutions (credit institutions, payment/settlement systems, depository institutions, clearing houses, financial companies), including interbank lending, conversion operations, limiting risks on operations with Nostro accounts, issue/acceptance of guarantees, acceptance of the letters of credit, transactions dealing with sale/purchase of financial assets on a deferred payment basis (supply of financial assets), etc., as well as participation in syndicated loans and co-loans that enable the Bank to divide the risk.

Procedures used to consider loan applications, methodology used to assess the creditworthiness of borrowers and counterparties, requirements to loan documentation are set forth in the Regulations on lending under different lending programs.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in respect of financial assets as at the reporting date is as follows:

	31 December 2016	31 December 2015
ASSETS		
Cash and cash equivalents	1 809 184	1 818 341
Statutory reserves with the Central Bank of the Russian Federation	28 636	11 609
Due from banks and other financial institutions	210 452	289 427
Accounts receivable under REPO agreements	1 462 841	1 107 001
Positive fair value of derivative financial instruments	17 540	10 563
Debt liabilities available for sale	1 069 899	1 043 835
Loans to clients	14 320	43 063
Other financial assets	-	118
Total maximum risk level	4 612 872	4 323 957

The credit risk level is managed through obtaining collateral and guarantees (guarantees). The amount and type of collateral depend on the counterparty's credit risk exposure.

Collateral is not usually provided for the rights of claim on derivative financial instruments, investments in securities, loans and advances issued to banks, except for the cases when securities are received under reverse REPO transactions and securities lending transactions.

For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 15.

For the maximum credit risk exposure in respect of unrecognized contract commitments as of the reporting date refer to Note 25.

As at 31 December 2016, the Bank has two counterparties (31 December 2015: two counterparties) whose individual credit risk exposure exceeds 10% of the maximum level of credit risk exposure. As at 31 December 2016, the credit risk exposure in respect of these counterparties is RUB 2 978 038 thousand (31 December 2015: RUB 2 910 063 thousand).

Liquidity risk

Liquidity risk is the risk that the Bank may face difficulties in meeting its payment obligations in full. Liquidity risk may arise as a result of imbalances in the Bank's financial assets and financial liabilities (including due to late performance of financial obligations by one or more counterparties of the Bank) and / or the unforeseen need for immediate and non-recurring performance of the Bank's financial obligations.

The Bank maintains the required liquidity level in order to ensure the continuing availability of cash required to settle all liabilities as they mature.

The Bank strives to actively maintain diversified and stable structure of financing sources consisting of debt securities issued, long-term and short-term loans from other banks, deposits from major corporate and retail clients, as well as to diversify highly liquid asset portfolio in order to be able to react quickly and without sudden fluctuations to unforeseeable liquidity requirements.

Risk liquidity factors, segregation of liquidity management function and responsibilities, liquidity assessment and management methods, reporting and information exchange procedures in the course of liquidity risk management are described in detail on the *Liquidity Risk Management Regulation*. The Bank's liquidity management and control system includes the following elements:

- the Bank's Management Board that is responsible for the general organization of efficient liquidity management and control over liquidity position ;
- ALM Committee that is responsible for liquidity management decision-making, ensuring efficient liquidity management and implementing controls over liquidity position and implementation of the relevant decisions;
- Risk Control Department that is responsible for liquidity position analysis;
- Treasury that is responsible for ensuring compliance with the established norms and limits in active banking transactions;
- the Bank's head office and additional offices that are responsible for providing information about the inflows and clients' payments;
- the Bank's internal documents regulating the Bank's liquidity level and setting forth measures to maintain liquidity: documents describing liquidity position analysis procedure, decisions of managing bodies on mobilization of assets, implementation of new banking products, involvement of additional resources, etc.;
- the system ensuring provision of regular and current information and reports on the Bank's liquidity to regulatory authorities;
- Internal Control Department that is responsible for ensuring compliance with all risk management procedures.

Financial Reporting Division of the Accounting and Financial Reporting Department on a daily basis calculates statutory economic standards in compliance with the procedures established by the Central Bank, as well as assesses the actual value of statutory liquidity ratio and the size of risks the Bank is exposed to.

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

An inherent element of liquidity management is a regular review of liquidity position based on the short-term liquidity forecast and data taken from the reports. If there is an inconsistency between the forecasted and actual results, the Bank analyses these inconsistencies with the purpose to introduce adjustments into liquidity management system. In order to assess a perspective liquidity position a short-term liquidity forecast is made.

Liquidity level forecast is made by extrapolation of the current liquidity level with account of adjustment for the planned changes in the asset and liability structure on the basis of data provided by the Bank's divisions that are responsible for such information.

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the liabilities or off-balance commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

Analysis of financial liabilities, by expected maturities, as at 31 December 2016, can be presented as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total gross amount of outflow	Carrying amount
Non-derivative financial liabilities						
Negative fair value of derivative financial instruments	7 409	-	-	-	7 409	7 409
Due to banks and other financial institutions	636	-	-	-	636	636
Accounts payable under REPO agreements	630 458	-	-	-	630 458	630 458
Current customer accounts and deposits	2 625 074	-	160 666	-	2 785 740	2 772 975
Other financial liabilities	5 244	-	160	-	5 404	5 404
Total liabilities	3 268 821	-	160 826	-	3 429 647	3 416 882
Off-balance credit commitments	-	-	-	-	-	-

Analysis of financial liabilities, by expected maturities, as at 31 December 2015, can be presented as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total gross amount of outflow	Carrying amount
Non-derivative financial liabilities						
Negative fair value of derivative financial instruments	16 097	-	-	-	16 097	16 097
Accounts payable under REPO agreements	1 022 866	-	-	-	1 022 866	1 022 866
Current customer accounts and deposits	1 950 756	314 795	25 370	-	2 290 921	2 285 470
Debt liabilities issued	-	27 749	-	-	27 749	27 749
Other financial liabilities	839	-	150	-	989	989
Total liabilities	2 990 558	342 544	25 520	-	3 358 622	3 353 171
Off-balance credit commitments	141 826	-	-	-	141 826	141 826

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

According to the Russian laws, individuals can withdraw their demand deposits from the Bank at any time, however, in most cases, they lose the right to receive accrued interest income. Consequently, such deposits net of accrued interest income are disclosed in the table below in *Demand and less than 1 month* category. Information about the contractual maturities of these deposits is given below:

	<u>2016</u>	<u>2015</u>
Demand and less than 1 month	5 519	4 185
From 1 to 3 months	4 382	-
From 3 to 12 months	73	2 871
From 1 year to 5 years	101	-
	<u>10 075</u>	<u>7 056</u>

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

The table below shows the analysis of assets and liabilities by their contractual maturity as at 31 December 2016, except for financial assets available for sale. These securities are disclosed in Demand and less than 1 month category as the Bank's Management believes that the majority of these financial instruments can be sold by the Bank within the short term.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Total
Non-derivative financial assets					
Cash and cash equivalents	1 845 871	-	-	-	1 845 871
Statutory reserve with the Central Bank of the Russian Federation	27 041	-	-	1 595	28 636
Due from banks and other financial institutions	210 452	-	-	-	210 452
Accounts receivable under REPO agreements	1 462 841	-	-	-	1 462 841
Positive fair value of derivative financial instruments	17 540	-	-	-	17 540
Financial assets available for sale	1 069 899	-	570	13 750	1 069 899
Customer loans	-	-	570	13 750	14 320
Total assets	4 633 644	-	570	15 345	4 649 559
Non-derivative financial liabilities					
Negative fair value of derivative financial instruments	6 454	-	955	-	7 409
Due from banks and to financial institutions	636	-	-	-	636
Accounts payable under REPO agreements	630 458	-	-	-	630 458
Current customer accounts and deposits	2 670 108	99 317	-	3 550	2 772 975
Other financial liabilities	5 244	-	160	-	5 404
Total liabilities	3 312 900	99 317	1 115	(3 550)	3 416 882
Net position	1 320 744	(99 317)	(545)	11 795	1 232 677

NOTES TO THE FINANCIAL STATEMENTS ENDED 31 DECEMBER 2016

The table below shows the analysis of assets and liabilities by their contractual maturity as at 31 December 2015, except for financial assets available for sale. These securities are disclosed in Demand and less than 1 month category as the Bank's Management believes that the majority of these financial instruments can be sold by the Bank within the short term.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Total
Non-derivative financial assets					
Cash and cash equivalents	1 843 678	-	-	-	1 843 678
Statutory reserve with the Central Bank of the Russian Federation	9 897	1 590	122	-	11 609
Due from banks	289 427	-	-	-	289 427
Accounts receivable under REPO agreements	1 106 916	85	-	-	1 107 001
Positive fair value of derivative financial instruments	10 009	554	-	-	10 563
Financial assets available for sale	1 166 639	-	-	-	1 166 639
Customer loans	-	-	29 700	13 363	43 063
Other financial assets	118	-	-	-	118
Total assets	4 426 684	2 229	29 822	13 363	4 472 098
Non-derivative financial liabilities					
Negative fair value of derivative financial instruments	16 097	-	-	-	16 097
Accounts payable under REPO agreements	1 022 866	-	-	-	1 022 866
Current customer accounts and deposits	1 948 471	312 961	24 038	-	2 285 470
Debt liabilities issued	-	27 749	-	-	27 749
Other financial liabilities	839	-	150	-	989
Total liabilities	2 988 273	340 710	24 188	-	3 353 171
Net position	1 438 411	(338 481)	5 634	13 363	1 118 927

The table below shows the analysis of financial assets available for sale by their contractual maturity as at 31 December 2016 and 31 December 2015:

	2016	2015
From 1 to 3 months	-	58
From 3 to 12 months	40 121	168 798
From 1 year to 5 years	703 929	587 853
Over 5 years	211 504	287 126
No maturity	114 345	122 804
Financial assets available for sale	1 069 899	1 166 639

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank.

These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

	Requirement	2016, %	2015, %
Instant liquidity ratio (N2)	Not less than 15%	54,7	92,0
Current liquidity ratio (N3)	Not less than 50%	127,5	156,6
Long-term liquidity ratio (N4)	Not more than 120%	0,7	0,8

23. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The Bank's policy on capital management is to maintain a stable capital base to maintain the confidence in investors, creditors and market participants, as well as to ensure the progressive development of its own operations.

The main objective of capital adequacy management is to ensure the Bank's ability to fulfill its strategic development objectives while complying with capital adequacy requirements.

The Bank defines as capital those items defined as capital (equity) of credit institutions by the Russian legislation. The Bank calculates capital adequacy based on requirements set by Regulation № 395-P of the Central Bank *On the Methodology for Determining the Value of Own Funds (Capital) of Credit Institutions (Basel III)*" (hereinafter - "Regulations of the Central Bank of Russia No. 395-P").

As at 31 December 2016, the minimum level of basic capital adequacy ratio (hereinafter – "N1.1 ratio"), the minimum additional capital adequacy ratio (hereinafter – "N1.2 ratio") and the minimum equity adequacy ratio (hereinafter – "N1.0 ratio") were 4.5%, 5.5% and 8.0% respectively. Starting from 31 December 2015 the minimum H1.1, H1.2 and H1.0 ratios were 5.0%, 6.0% и 10.0% respectively.

The Bank maintains capital adequacy at a level that corresponds to the nature and volume of its operations.

As at 31 December 2016 and 31 December 2015, the Bank's capital adequacy ratios complied with the the statutory level.

The calculation of the level of capital adequacy in accordance with the requirements of the Central Bank as of 31 December are as follows:

	<u>2016</u>	<u>2015</u>
Basic capital	1 132 906	1 105 643
Additional capital	82 979	46 658
Total capital	<u>1 215 885</u>	<u>1 152 301</u>
Risk weighted assets	<u>2 575 399</u>	<u>2 719 898</u>
N1.1 ratio (%)	<u>44,0%</u>	<u>40,7%</u>
N1.2 ratio (%)	<u>44,0%</u>	<u>40,7%</u>
N1.0 ratio (%)	<u>47,2%</u>	<u>42,4%</u>

24. CREDIT RELATED CONTINGENCIES

At any moment the Bank may have to be required to provide loan resources. These commitments may involve issue of loans resources in the form of approved loans, credit card limits and overdrafts.

The Bank issues bank guarantees and letters of credit with the purpose to ensure fulfillment of the clients' obligations to third parties. Such agreements record the limits of the Bank's liabilities, and, as a rule, are effective up to one year.

When the Bank issues guarantees, loan off-balance commitments and letters of credit, the Bank applies the same risk management policies and procedures as upon issue of loans to customers.

Contractual amounts of off-balance liabilities are presented, by category, in the table below. Amounts disclosed in the table in respect of loan commitments presuppose that these liabilities will be settled in full. Amounts disclosed in the table in respect of guarantees and letters of credit are the maximum amounts of accounting losses that would have been recognized as of the reporting date, if the counterparties failed to fulfill their contractual obligations.

	<u>2016 год</u>	<u>2015 год</u>
Guarantees and letters of credit	-	141 826
	<u>-</u>	<u>141 826</u>

As at 31 December 2016, the Bank did not have any counterparties the total amount of loan liabilities to whom comprised more than 10% of the total capital.

25. OPERATING LEASE

Bank as a lessee

Operating lease liabilities where the Bank acts as a lessee and that cannot be annulled unilaterally as at 31 December were as follows:

	<u>2016</u>	<u>2015</u>
Less than 1 year	4 492	4 766
Between 1 and 5 years	6 645	7 006
	<u>11 137</u>	<u>11 772</u>

The Bank leases a number of premises and equipment under operating lease agreements. The leases typically run for an initial period from five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. Operating lease liabilities do not include contingent liabilities.

26. CONTINGENT LIABILITIES

Outstanding litigations

In the ordinary course of business the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints (if any) will not have a material adverse effect on the financial position or further operations of the Bank.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market interval or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five methods of market price determination prescribed by the Tax Code

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 in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated. However, Management believes that they can significantly affect the financial position and/or the overall operations of the Bank.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

27. RELATED PARTY TRANSACTIONS

Transaction with the Board of Directors and the Management Board

The total amount of remuneration included into *Payroll Expenses* as at December 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Short-term remuneration to the Board of Directors and the Management Board	6 903	7 840
	<u>6 903</u>	<u>7 840</u>

As at 31 December 2016 and 31 December 2015, the outstanding balances and the related average effective interest rates on transactions with the Board of Directors and the Management Board were as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Amount</u>	<u>Average effective interest rates</u>	<u>Amount</u>	<u>Average effective interest rates</u>
Statement of Financial Position				
ASSETS				
Customer loans:				
Retail loans:				
- in RUB	12 432	15,1%	9 469	15,5%
LIABILITIES				
Current customer accounts and deposits:				
Current accounts:				
- in RUB	1 181	0,0%	1 116	0,0%
Fixed-term deposits:				
- in RUB	553	8,3%	-	-

In 2016 and 2015, the amounts included into profit or loss from transactions with the Board of Directors and Management Board were as follows:

	<u>2016</u>	<u>2015</u>
Statement of Comprehensive Income		
Interest income	1 565	521
Interest expense	17	-
Fee and commission income	43	53
Net loss from foreign currency transactions	4	(875)
Other general and administrative expense	(6 903)	(7 840)

Other related party transactions

Other related parties include entities that are shareholders of the Banks and associated entities and persons.

As at 31 December 2016 and 31 December 2015, the outstanding balances and the related average effective interest rates on related party transactions were as follows:

	31 December 2016		31 December 2015	
	Amount	Average effective interest rates	Amount	Average effective interest rates
Statement of Financial Position				
ASSETS				
Cash and cash equivalents:				
Nostro accounts in other banks and financial institutions:				
- in RUB	152	-	2	-
- in USD	27 306	-	37 861	-
Accounts receivable under REPO agreements:				
- in RUB	30 451	10,5%	-	-
- in USD	21	1,9%	96	0,7%
Financial assets available for sale:				
- owned by the Bank	43 927	-	45 651	-
- pledged under REPO agreements	6 459	-	19 225	-
Other assets	36	-	6	-
LIABILITIES				
Accounts payable under REPO agreements:				
- in RUB	9 181	10,6%	-	-
- in USD	6 614	0,7%	19 531	0,3%
Due to banks and other financial institutions				
- in RUB	636	-	-	-
Current customer accounts and deposits:				
Current accounts:				
- in RUB	1 132 499	0,0%	13 121	0,0%
- in USD	193 666	0,0%	9 733	0,0%
Fixed-term deposits:				
- in RUB	119 897	7,5%	725 258	10,8%
- in USD	-	-	136 307	0,4%
Other liabilities	420	-	17	-

As at 31 December 2015, the Bank issued a guarantee to a shareholder amounting to RUB 53 086 thousand.

In 2016 and 2015, the amounts included into profit or loss from other related party transactions were as follows:

	2016	2015
Statement of Comprehensive Income		
Interest income	691	27
Interest expense	(66 411)	(59 448)
Fee and commission income	2 999	3 875
Fee and commission expense	(915)	(216)
Net loss from foreign currency transactions	26 282	(30 519)
Other income	1 085	186
Impairment provision	(8 116)	(660)
Other general and administrative expense	(4 581)	-

28. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair value

The table below shows the carrying amount and the fair value of financial assets and liabilities as at 31 December 2016:

	Measured at fair value	Loans and receivables	Available for sale	Other carried at amortized cost	Total recognized amount	Fair value
Cash and cash equivalents	-	1 845 871	-	-	1 845 871	1 845 871
Statutory reserves with the Central Bank of the Russian Federation	-	28 636	-	-	28 636	28 636
Due from banks and other financial institutions	-	210 452	-	-	210 452	210 452
Accounts receivable under REPO agreements	-	1 462 841	-	-	1 462 841	1 462 841
Positive fair value of derivative financial instruments	17 540	-	-	-	17 540	17 540
Financial assets available for sale	-	-	1 069 899	-	1 069 899	1 069 899
Customer loans:						
- retail loans	-	14 320	-	-	14 320	14 320
	17 540	3 562 120	1 069 899	-	4 649 559	4 649 559
Negative fair value of derivative financial instruments	(7 409)	-	-	-	(7 409)	(7 409)
Due to banks and other financial institutions	-	-	-	(636)	(636)	(636)
Accounts payable under REPO agreements "	-	-	-	(630 458)	(630 458)	(630 458)
Current customer accounts and deposits	-	-	-	(2 772 975)	(2 772 975)	(2 772 975)
Other financial liabilities	-	-	-	(5 404)	(5 404)	(5 404)
	(7 409)	-	-	(3 409 473)	(3 416 882)	(3 416 882)

The table below shows the carrying amount and the fair value of financial assets and liabilities as at 31 December 2015:

	Measured at fair value	Loans and receivables	Available for sale	Other carried at amortized cost	Total recognized amount	Fair value
Cash and cash equivalents	-	1 843 678	-	-	1 843 678	1 843 678
Statutory reserves with the Central Bank of the Russian Federation	-	11 609	-	-	11 609	11 609
Due from banks and other financial institutions	-	289 427	-	-	289 427	289 427
Accounts receivable under REPO agreements	-	1 107 001	-	-	1 107 001	1 107 001
Positive fair value of derivative financial instruments	10 563	-	-	-	10 563	10 563
Financial assets available for sale	-	-	1 166 639	-	1 166 639	1 166 639
Customer loans:						
- corporate loans	-	29 700	-	-	29 700	29 700
- retail loans	-	13 363	-	-	13 363	13 363
	-	118	-	-	118	118
Other financial assets	10 563	3 294 896	1 166 639	-	4 472 098	4 472 098
Negative fair value of derivative financial instruments	(16 097)	-	-	-	(16 097)	(16 097)
Accounts payable under REPO agreements	-	-	-	(1 022 866)	(1 022 866)	(1 022 866)
Customer current accounts and deposits	-	-	-	(2 285 470)	(2 285 470)	(2 285 470)
Debt liabilities issued	-	-	-	(27 749)	(27 749)	(27 749)
Other financial liabilities	-	-	-	(989)	(989)	(989)
	(16 097)	-	-	(3 337 074)	(3 353 171)	(3 353 171)

The Bank measured the fair value of its financial instruments, as required by IFRS 7 Financial Instruments: Disclosures.

The estimated fair value of financial instruments available for sale is based on quoted market prices at the reporting date without any deduction for transaction costs.

The fair value of all other financial assets and liabilities are measured using the discounted cash flow method on the basis of estimated future cash flows and discount rates used for similar instruments as of the reporting date. In using the discounted cash flow method the future cash flows are measured on the basis Management's estimates and the discount rate is the market rate used for similar instruments as at the reporting date. The rates disclosed for the main financial instruments, by currency, in Note 22 Risk Management *Interest Rate Risk* section are not materially different from the market rates effective as of the reporting date.

As at 31 December 2016 and 31 December 2015, Management concluded that the fair value of all financial assets and financial liabilities is not materially different from their carrying value.

Measurement of fair value is aimed at a more precise determination of the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction on the measurement date. However, due to existing uncertainties and subjectivity of estimates the fair value should not be regarded as the amount for which an asset can be immediately sold or a liability can be immediately settled.

Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Total
Positive fair value of derivative financial instruments	-	17 540	17 540
Financial assets available for sale			955 554
- Debt instruments and other fixed income instruments	955 554	-	114 345
- Equity instruments	114 345	-	7 409
Negative fair value of derivative financial instruments	-	7 409	

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Total
Positive fair value of derivative financial instruments	-	10 563	10 563
Financial assets available for sale			
- Debt instruments and other fixed income instruments	1 043 835	-	1 043 835
- Equity instruments	122 804	-	122 804
Negative fair value of derivative financial instruments	-	16 097	16 097

29. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the analysis of derivative financial instruments as at 31 December 2016 and 31 December 2015:

	2016	2015
Foreign currency forward contracts (swap) (assets)	17 540	10 009
Foreign currency forward contracts (assets)	-	554
Foreign currency forward contracts (swap) (liabilities)	(6 454)	(16 097)
Foreign currency forward contracts (liabilities)	(955)	-
Total derivative financial instruments	10 131	(5 534)

The table below shows the analysis of derivative financial instruments as at 31 December 2016:

	Nominal transaction cost 2016 год	Fair value 2016 год
Purchase of USD for RUB For less than 1 month	1 094 806	(3 248)
Purchase of RUB for USD For less than 1 month	861 465	12 269
Purchase of EUR for RUB For less than 1 month	704 794	1 609
Purchase of RUB for EUR For less than 1 month	1 781 393	1 063
Purchase of USD for EUR For less than 1 month	127 016	(607)
		11 086

The table below shows the analysis of derivative financial instruments as at 31 December 2015:


	Nominal transaction cost	Fair value
	2015	2015
Purchase of USD for RUB		
For less than 1 month	18 658	102
Purchase of RUB for USD		
For less than 1 month	2 282 258	(15 873)
Purchase of EUR for RUB		
For less than 1 month	1 276 749	9 906
Purchase of USD for EUR		
For less than 1 month	2 231 297	(223)
		<u>(6 088)</u>

30. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit or loss from ordinary shares by the weighted average of ordinary shares circulating during the year.

The Bank does not have ordinary shares that potentially reduce the amount of earnings per share. So, therefore, the diluted earnings per share are equal to the basic earnings per share.

	2016	2015
Net income for period payable to shareholders	89 938	54 752
Weighted average of circulating ordinary shares (in thousand shares)	56 490	56 490
	<u>1,59</u>	<u>0,97</u>



I.B. Ionova

Chairman of the Board



[STAMP]



L.S. Grigorenko

Chief Accountant

NUMBERED, BOUND,
SEALED
60 (SIXTY) SHEETS

Head of Credit Institutions Audit
Division, Audit Department,
JSC "ACG "RBS"

E.V. Pelevina

