Joint Stock Company
“Russian Bank for Small and Medium Enterprises Support”
Consolidated Financial Statements
for the year ended December 31, 2016
with Auditor’s Report

March 2017
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AUDITOR’S REPORT

To the Shareholders of Joint Stock Company “Russian Bank for Small and Medium Enterprises Support”

Audited entity
Joint Stock Company “Russian Bank for Small and Medium Enterprises Support” (JSC SME Bank)
JSC SME Bank is registered by Inspectorate No. 5 of the Federal Tax Service for the City of Moscow under Main State Registration Number 1027739108649.
Registered office: 79 Sadovnicheskaya Str., Moscow, 115035, Russia.

Auditor
BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)
Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.
Registered office: 11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation.
BDO Unicon AO is a member of the professional audit association Self-regulated organization of auditors “Audit Chamber of Russia” (Association) (Main State Registration No. 11603059593 in the State Register of Auditors and Audit Organizations).
The authority to sign the Auditor’s Report rests with Denis A. Taradov, Partner, by way of Power of Attorney No. 7-01/2016-БДО of 1 January 2016.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC SME Bank (“the Bank”) and its subsidiaries (jointly “the Group”), which comprise the consolidated statement of financial position as of 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2016, which comprise a summary of significant accounting policies and other explanatory information.

Audited Entity’s Responsibility for the Consolidated Financial Statements

Management of JSC SME Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements, and for the internal control system necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Federal Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC SME Bank and its subsidiaries as of 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

Other Matter

The consolidated financial statements for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 28 March 2016.

Report in compliance with requirements of Article 42 of Federal Law No. 395-1 of 2 December 1990 “On Banks and Banking Activity”

Management of JSC SME Bank is responsible for the Group’s compliance with mandatory ratios set by the Bank of Russia and for compliance of the Bank's internal control and organization of its risk management systems with requirements established by the Bank of Russia in respect of such systems.

In accordance with Article 42 of Federal Law No. 395-1 of 2 December 1990 “On Banks and Banking Activity”, in the course of audit of the Bank’s consolidated financial statements for 2016 we reviewed:

- the Group’s compliance with mandatory ratios as of 1 January 2017 as set by the Bank of Russia; and
- compliance of the Group’s internal control and organization of risk management systems with requirements established by the Bank of Russia in respect of such systems.
The review was limited to procedures selected on the basis of our judgment, such as inquiries, analysis, review of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, as well as recalculation and comparison of numerical values and other information.

We report our findings below:

1. In terms of the Group’s compliance with the mandatory ratios established by the Bank of Russia:
   - the Group’s mandatory ratios as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures with respect to the Group’s accounting data, except for the procedures we considered necessary to enable us to express an opinion as to whether the Bank’s consolidated financial statements present fairly, in all material respects, the financial position of JSC SME Bank and its subsidiaries as of 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

2. In terms of compliance of the Group’s internal control and organization of its risk management systems with requirements established by the Bank of Russia in respect of such systems:
   a) in accordance with the regulations and recommendations issued by the Bank of Russia, as of 31 December 2016 the Bank’s Internal Audit Department was subordinated and accountable to the Supervisory Board of the Bank, and the Bank’s risk management divisions were not subordinate or accountable to the departments that take the relevant risks; the heads of the Internal Audit Department and Bank’s risk management divisions meet the competence requirements set by the Bank of Russia;
   b) the Bank’s internal documentation effective as of 31 December 2016 and establishing the methodologies for identifying and managing the Group’s significant credit, operational, market, interest rate, legal, liquidity and reputational risks and for stress testing was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations by the Bank of Russia;
   c) as of 31 December 2016, based on its internal documentation the Bank maintained a system for reporting on the Group’s significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group’s equity (capital);
   d) the frequency and consistency of reports prepared by the Bank’s risk management divisions and Internal Audit Department during 2016, which cover the Group’s credit, operational, market, interest rate, legal, liquidity and reputational risks management, were in compliance with the Bank’s internal documentation. The reports included observation made by the Bank’s risk management division and Internal Audit Department as to their assessment of effectiveness of the Bank’s methodologies, and recommendations for their improvement;
   e) as of 31 December 2016, the Council and executive bodies of the Bank had responsibility for monitoring the Group’s compliance with risk limits and capital adequacy ratios as established by the Bank’s internal documentation. With the objective of monitoring the effectiveness of the Group’s risk management procedures and their consistent application during 2016, the Supervisory Board and executive bodies of the Bank periodically discussed reports prepared by the risk management division and Internal Audit Department, and considered the proposed corrective actions.
Translation from the Russian original

Our procedures related to the Group's internal control and organization of its risk management systems were performed solely for the purpose of determining whether the Group's internal control and organization of risk management systems comply with requirements set forth by the Bank of Russia in respect of such systems.

BDO Unicon AO

This translation is true and correct.

D.A. Taradov
Partner

1 March 2017

Total number of pages attached 8/8.
Translation from the Russian original


The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the Auditor's Report, is made with a view to distinguishing the respective responsibilities of management of SME Bank Group (the Group) and those of the independent auditor in relation to the Group's consolidated financial statements.

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at December 31, 2016, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation (and other countries where the Group companies are registered);
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Group's management the consolidated financial statements for the year ended December 31, 2016 were authorised for issue on March 1, 2017 by:

D.Y. Golovanov

Chairman of the Management Board

T.V. Boyazytova

Acting Chief Accountant

JSC SME Bank
79, Sadovnicheskaya str., Moscow, Russia

March 1, 2017
Consolidated Statement of Financial Position  
As of December 31, 2016  
*(in thousands of Russian Roubles)*

Translation from the Russian original

<table>
<thead>
<tr>
<th>Assets</th>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>5</td>
<td>11 770 876</td>
<td>4 916 178</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>6</td>
<td>138 238</td>
<td>101 347</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>6</td>
<td>1 183 055</td>
<td>4 784 857</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>6</td>
<td>5 587 960</td>
<td>-</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>7</td>
<td>70 630 225</td>
<td>87 281 384</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>8</td>
<td>-</td>
<td>8 225 725</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>9</td>
<td>15 063 507</td>
<td>9 407 173</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td>10</td>
<td>9 164 308</td>
<td>8 580 108</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>11</td>
<td>161 247</td>
<td>199 934</td>
</tr>
<tr>
<td>Current income tax assets</td>
<td>12</td>
<td>16 332</td>
<td>66 341</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>14</td>
<td>677 301</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>14</td>
<td>4 047 339</td>
<td>3 756 959</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>118 440 388</strong></td>
<td><strong>127 320 006</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
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<tr>
<td>Amounts due to the Central Bank</td>
<td>15</td>
<td>38 908 757</td>
<td>36 085 264</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>16</td>
<td>36 618 532</td>
<td>38 776 212</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>18</td>
<td>5 729 546</td>
<td>3 026 742</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>19</td>
<td>2 113 579</td>
<td>11 231 625</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>12</td>
<td>-</td>
<td>755 503</td>
</tr>
<tr>
<td>Provisions</td>
<td>13,22</td>
<td>1 211 332</td>
<td>76 302</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>14</td>
<td>772 682</td>
<td>597 828</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>20</td>
<td>7 954 630</td>
<td>7 870 136</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>93 309 058</strong></td>
<td><strong>98 418 702</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>21</td>
<td>20 969 227</td>
<td>20 969 227</td>
</tr>
<tr>
<td>Unrealized revaluation of investment financial assets available for sale</td>
<td></td>
<td>(61 922)</td>
<td>(23 473)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>19</td>
<td>4 224 025</td>
<td>7 955 550</td>
</tr>
<tr>
<td><strong>Total equity attributable to shareholders of the Bank</strong></td>
<td></td>
<td><strong>25 131 330</strong></td>
<td><strong>28 901 304</strong></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td><strong>118 440 388</strong></td>
<td><strong>127 320 006</strong></td>
</tr>
</tbody>
</table>

D.Y. Golovanov                                                      Chairman of the Management Board

T.V. Boyazytova                                                    Acting Chief Accountant

March 1, 2017

*The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.*
Consolidated Income Statement
For the year ended December 31, 2016
(in thousands of Russian Roubles)

Translation from the Russian original

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>11 617 729</td>
<td>10 096 437</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>1 671 131</td>
<td>1 439 806</td>
</tr>
<tr>
<td>Investment financial assets</td>
<td>1 010 467</td>
<td>862 117</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14 299 347</strong></td>
<td><strong>12 398 360</strong></td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>888 980</td>
<td>616 657</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15 188 327</strong></td>
<td><strong>13 015 017</strong></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>(4 044 745)</td>
<td>(4 106 702)</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>(965 120)</td>
<td>(1 305 149)</td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
<td>(4 538 853)</td>
<td>(2 318 767)</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>(281 429)</td>
<td>(215 942)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(9 830 147)</strong></td>
<td><strong>(7 946 559)</strong></td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for impairment of loans to credit institutions under the program of extending loans to small and medium enterprises, loans to customers and investment financial assets</td>
<td>7, 9</td>
<td>(5 672 190)</td>
</tr>
<tr>
<td><strong>Net interest (expense)/income after allowance for loan impairment</strong></td>
<td><strong>(314 010)</strong></td>
<td><strong>1 081 674</strong></td>
</tr>
<tr>
<td></td>
<td>(100 621)</td>
<td>(19 770)</td>
</tr>
<tr>
<td>Net gains/(losses) from derivative financial instruments</td>
<td>(1 257 039)</td>
<td>1 475 919</td>
</tr>
<tr>
<td>Net gains/(losses) from foreign currencies</td>
<td>(5 087)</td>
<td>(230 537)</td>
</tr>
<tr>
<td>- dealing</td>
<td>(5 312 187)</td>
<td>(2 772 368)</td>
</tr>
<tr>
<td>- translation differences</td>
<td>82 955</td>
<td>243 148</td>
</tr>
<tr>
<td>Net gains from financial assets at fair value through profit or loss</td>
<td>13 738</td>
<td>(180 508)</td>
</tr>
<tr>
<td>Net gains/(losses) from investment financial assets available for sale</td>
<td>563 929</td>
<td>918 722</td>
</tr>
<tr>
<td>Gains less losses on initial recognition of financial instruments</td>
<td>811 304</td>
<td>6 033 848</td>
</tr>
<tr>
<td>Other income</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td><strong>Non-interest income</strong></td>
<td><strong>5 574 856</strong></td>
<td><strong>(2 942 707)</strong></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>23</td>
<td>(1 057 532)</td>
</tr>
<tr>
<td>Administrative and other operating expenses</td>
<td>23</td>
<td>(2 191 493)</td>
</tr>
<tr>
<td>Gains less losses or initial recognition of financial instruments</td>
<td>17</td>
<td>(2 325 831)</td>
</tr>
<tr>
<td><strong>Non-interest expense</strong></td>
<td><strong>(5 574 856)</strong></td>
<td><strong>(2 942 707)</strong></td>
</tr>
<tr>
<td>Profit/(loss) before income tax expense</td>
<td>12</td>
<td>(5 077 562)</td>
</tr>
<tr>
<td>Income tax (expense)/recovery</td>
<td>1 346 037</td>
<td>(839 263)</td>
</tr>
<tr>
<td><strong>Profit/(loss) for the year</strong></td>
<td><strong>(3 731 525)</strong></td>
<td><strong>3 333 552</strong></td>
</tr>
</tbody>
</table>

D.Y. Golovanov
Chairman of the Management Board

T.V. Boyazytova
Acting Chief Accountant

March 1, 2017

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2016
(in thousands of Russian Roubles)

Translation from the Russian original

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(3 731 525)</td>
<td>3 333 552</td>
</tr>
<tr>
<td>(Loss)/profit for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized losses on investment financial assets available for sale</td>
<td>(34 323)</td>
<td>(218 523)</td>
</tr>
<tr>
<td>Realized losses on investment financial assets available for sale reclassified to the income statement</td>
<td>(13 738)</td>
<td>(79 492)</td>
</tr>
<tr>
<td>Impairment loss reclassified to the income statement</td>
<td>-</td>
<td>260 000</td>
</tr>
<tr>
<td>Income tax relating to components of other comprehensive income</td>
<td>9 612</td>
<td>7 603</td>
</tr>
<tr>
<td>Other comprehensive expense for the year, net of tax</td>
<td>(38 449)</td>
<td>(30 412)</td>
</tr>
<tr>
<td>Total comprehensive (expense)/income for the year</td>
<td>(3 769 974)</td>
<td>3 303 140</td>
</tr>
</tbody>
</table>

D.Y. Golovanov
Chairman of the Management Board

T.V. Boyazytova
Acting Chief Accountant

March 1, 2017

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.
Consolidated Statement of Changes in Equity
For the year ended December 31, 2016
(in thousands of Russian Roubles)

Translation from the Russian original

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Unrealized gains/(losses) on investment financial assets available for sale</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At December 31, 2014</td>
<td>20 969 227</td>
<td>6 939</td>
<td>4 753 290</td>
<td>25 729 456</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>3 333 552</td>
<td>3 333 552</td>
</tr>
<tr>
<td>Other comprehensive expense for the year</td>
<td></td>
<td>(30 412)</td>
<td></td>
<td>(30 412)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td>(30 412)</td>
<td>3 333 552</td>
<td>3 303 140</td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td></td>
<td>(131 292)</td>
<td>(131 292)</td>
</tr>
<tr>
<td>At December 31, 2015</td>
<td>20 969 227</td>
<td>(23 473)</td>
<td>7 955 550</td>
<td>28 901 304</td>
</tr>
<tr>
<td>Loss for the year</td>
<td></td>
<td></td>
<td>(3 731 525)</td>
<td>(3 731 525)</td>
</tr>
<tr>
<td>Other comprehensive expense for the year</td>
<td></td>
<td>(38 449)</td>
<td></td>
<td>(38 449)</td>
</tr>
<tr>
<td>Total comprehensive expense for the year</td>
<td></td>
<td>(38 449)</td>
<td>(3 731 525)</td>
<td>(3 769 974)</td>
</tr>
<tr>
<td>At December 31, 2016</td>
<td>20 969 227</td>
<td>(61 922)</td>
<td>4 224 025</td>
<td>25 131 330</td>
</tr>
</tbody>
</table>

D.Y. Golovanov
Chairman of the Management Board

T.V. Boyazytova
Acting Chief Accountant

March 1, 2017

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.
Consolidated Statement of Cash Flows
For the year ended December 31, 2016
(in thousands of Russian Roubles)

Translation from the Russian original

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (loss)/profit</td>
<td>(3 731 525)</td>
<td>3 333 552</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>11</td>
<td>84 451</td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>12</td>
<td>(1 423 192)</td>
</tr>
<tr>
<td>Allowance for impairment of loans to credit institutions under the program of extending loans to small and medium enterprises, loans to customers and investment financial assets held to maturity</td>
<td></td>
<td>5 672 190</td>
</tr>
<tr>
<td>Gains less losses on initial recognition of financial instruments</td>
<td>2 325 831</td>
<td>(6 599 242)</td>
</tr>
<tr>
<td>Changes in unrealized revaluation of foreign currencies</td>
<td>(1 312 187)</td>
<td>2 772 368</td>
</tr>
<tr>
<td>Changes in accrued interest income/expense</td>
<td>(1 259 488)</td>
<td>(1 134 019)</td>
</tr>
<tr>
<td>Changes in unrealized revaluation of financial instruments held for trading and financial assets designated as at fair value through profit or loss on initial recognition</td>
<td>(62 985)</td>
<td>(223 340)</td>
</tr>
<tr>
<td>Gains less losses from derivative financial instruments</td>
<td>8 1 257 039</td>
<td>1 475 919</td>
</tr>
<tr>
<td>Impairment of investment financial assets available for sale</td>
<td>-</td>
<td>260 000</td>
</tr>
<tr>
<td>Other impairment and provisions</td>
<td>1 378 362</td>
<td>743 178</td>
</tr>
<tr>
<td>Other movements</td>
<td>64 282</td>
<td>(375 625)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities before changes in operating assets and liabilities</strong></td>
<td>2 992 778</td>
<td>2 107 831</td>
</tr>
<tr>
<td>Net (increase)/decrease in operating assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>17 976 174</td>
<td>(6 343 476)</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>(1 960 536)</td>
<td>(818 698)</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>(36 891)</td>
<td>100 058</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>(6 676 838)</td>
<td>1 060 650</td>
</tr>
<tr>
<td>Other assets</td>
<td>(482 007)</td>
<td>(1 691 966)</td>
</tr>
<tr>
<td>Net increase/(decrease) in operating liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to credit institutions, net of long-term interbank financing</td>
<td>16 657 480</td>
<td>(3 286 319)</td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
<td>(2 630 000)</td>
<td>(20 630 000)</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>2 702 910</td>
<td>2 007 672</td>
</tr>
<tr>
<td>Promissory notes issued</td>
<td>30 000</td>
<td>(287 000)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>97 335</td>
<td>478 512</td>
</tr>
<tr>
<td><strong>Net cash flows generated from /(used in) operating activities before income tax</strong></td>
<td>28 670 405</td>
<td>(27 302 736)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>11</td>
<td>(47 423)</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>11</td>
<td>1 859</td>
</tr>
<tr>
<td>Purchase of investment financial assets</td>
<td>(20 260 358)</td>
<td>(24 782 607)</td>
</tr>
<tr>
<td>Proceeds from sale and redemption of investment financial assets</td>
<td>19 584 329</td>
<td>23 360 162</td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td>(721 793)</td>
<td>(1 455 903)</td>
</tr>
</tbody>
</table>

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.
Consolidated Statement of Cash Flows (continued)
For the year ended December 31, 2016
(in thousands of Russian Roubles)

Translation from the Russian original

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–</td>
<td>(131,292)</td>
</tr>
<tr>
<td>Long-term interbank financing redeemed</td>
<td>(17,361,590)</td>
<td>(1,765,812)</td>
</tr>
<tr>
<td>Long-term interbank financing raised from the Central Bank</td>
<td>59,395,000</td>
<td>47,975,000</td>
</tr>
<tr>
<td>Long-term interbank financing redeemed to the Central Bank</td>
<td>(53,741,000)</td>
<td>(10,505,000)</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>–</td>
<td>(7,042,409)</td>
</tr>
<tr>
<td>Retirement of bonds</td>
<td>(9,080,000)</td>
<td>–</td>
</tr>
<tr>
<td>Placement of bonds</td>
<td>–</td>
<td>2,009,001</td>
</tr>
<tr>
<td>Net cash flows (used in) / generated from financing activities</td>
<td>(20,787,590)</td>
<td>30,539,488</td>
</tr>
<tr>
<td>Effect of changes in foreign exchange rates on cash and cash equivalents</td>
<td>(306,324)</td>
<td>868,045</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>6,854,698</td>
<td>2,648,894</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning</td>
<td>4,916,178</td>
<td>2,267,284</td>
</tr>
<tr>
<td>Cash and cash equivalents, ending</td>
<td>11,770,876</td>
<td>4,916,178</td>
</tr>
</tbody>
</table>

5

Interest income received | 11,538,289 | 12,980,034 |
Interest expense paid | (7,481,066) | (8,136,930) |
Income tax paid | (27,146) | (72,582) |

D.Y. Golovanov | Chairman of the Management Board |
T.V. Boyaztova | Acting Chief Accountant |
March 1, 2017

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements.
Translation from the Russian original

1. Principal activities

Joint-Stock Company “Russian Bank for Small and Medium Enterprises Support” (JSC SME Bank; previously, OJSC “SME Bank”; hereinafter, the “Bank”) was established in 1999. The full name of the Bank in English shall be Joint-Stock Company “Russian Bank for Small and Medium Enterprises Support”. The short name of the Bank in English shall be JSC SME Bank.

The Bank has no branch offices in Russia or abroad. The Bank is not a member of the deposit insurance system. The Bank is registered and located at: 79, Sadovnicheskaya str., Moscow, 115035, Russia.


The Bank operates under an unlimited license for banking operations with funds in roubles and foreign currencies issued by the Central Bank of Russia (hereinafter, the “Central Bank”) on February 11, 2015 and has a license of a professional securities market participant for broker activity No. 045-13959-100000 issued by the Central Bank of the Russian Federation on December 7, 2015 for an unlimited term. In addition, the Bank holds a license of a professional participant of the securities market for dealer activity No. 077-11355-010000 issued by the Federal Service for Financial Markets on June 24, 2008 for an unlimited term.

Since 2004 the Bank has been implementing the Federal Program for Small and Medium Enterprise (hereinafter, “SME”) Financial Support across the entire territory of Russia through a network of partners (banks and infrastructure organisations: leasing and factoring companies, microfinance organisations, etc.). SME Bank provides funds to partners within the framework of the existing product line while the partners in their turn provide support to small and medium enterprises depending on their needs in the form of loans, microloans, property support using leasing mechanism, etc. Such arrangement of work allows to provide various types of support to a large number of entrepreneurs in all regions of Russia.

SME Bank provides support both within and outside the National Guarantee System to secure liabilities under contracts concluded in pursuance of Federal Law No. 223-FZ of July 18, 2011. Guarantee products are provided under agreements between SME Bank and its partner banks and are aimed to increase availability of bank loans to SMEs under conditions of collateral deficit. The key objective of the Bank is to ensure availability of credit facilities for the following priority SME segments: manufacturing sector, enterprises involved in innovative, resource-saving or energy-efficient projects throughout Russia, including regions with difficult social and economic conditions and single-industry towns.

JSC (AO) “Leasing Company of the Russian Bank for Small and Medium Enterprises Support” (JSC “SME Leasing”) was established on May 21, 2002 in the form of an open joint-stock company under the laws of the Russian Federation. The company’s core business is financial leasing. As of December 31, 2016 and 2015, the Bank held 100% of JSC “SME Leasing”. The company is a subsidiary of the Bank (hereinafter together referred to as the “Group”). It was consolidated in these consolidated financial statements using a full consolidation method.

Closed-end Mutual Fund for Long-term Direct Investments “Modernization. Innovation. Development” was established in 2011 to finance Russian innovation and high-tech entities operating in the spheres of machinery engineering, instrument engineering, environmental protection, biotechnology, composite production and energy efficiency. The short name of the fund shall be “CMF for Long-term Direct Investments “MIR””. In 2016 and 2015, the Bank held 100% of investment units of CMF for Long-term Direct Investments “MIR”. CMF for Long-term Direct Investments “MIR” was consolidated in these consolidated financial statements using a full consolidation method.

As of December 31, 2016 and 2015, the Group employed 426 and 420 people, respectively.
Translation from the Russian original

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets at fair value through profit or loss, financial assets available for sale and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Roubles ("RUB").

Going concern

These consolidated financial statements reflect the Group management’s current assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Group’s control. The Group’s management cannot predict what impact these factors can have on the Group’s financial position in future.

These consolidated financial statements were prepared on a going concern assumption. The Group’s liquidity position disclosed in Note 24 indicates that the Group has sufficient liquid assets to meet its current liabilities.

For prompt management of liquidity risk the Group regularly monitors external factors, which could influence the Group’s liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Group analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Group sets liquidity gap limits. The set limits are periodically reviewed to reflect the changes in external and internal environment.

To maintain the required liquidity level the Group can attract additional funds from the parent company, the Bank of Russia and in the interbank market. A sufficient current liquidity cushion accumulated by the Group and the available sources of additional funding allow the Group to continue its operations as a going concern.

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Group applied IAS 29 Financial Reporting in Hyperinflationary Economies. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at December 31, 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.
(in thousands of Russian Roubles)

Translation from the Russian original

3. Summary of accounting policies

Changes in accounting policies

During the year, the Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after January 1, 2016:

Amendments to IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets
Clarification of Acceptable Methods of Depreciation and Amortisation
(Effective for annual periods beginning on or after January 1, 2016)

Paragraph 62A to IAS 16 has been added to prohibit the use of revenue-based methods of depreciation for items of property, plant and equipment, because the revenue generated by an activity that includes the use of an item of property, plant and equipment generally reflects factors other than the consumption of the economic benefits of the item.

Paragraphs 98A - 98C have also been added to IAS 38 to clarify that there is a presumption that revenue-based amortisation is not appropriate, and that this can only be rebutted in limited circumstances where either:
- the intangible asset is expressed as a measure of revenue, or
- revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Group anticipates that application of the amendment will have no effect on the Group’s consolidated financial statements, as the Group has not used revenue-based depreciation method for its non-current assets.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(Effective for annual periods beginning on or after January 1, 2016)

These amendments address an inconsistency between IFRS 10 and IAS 28 with respect to sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

The Group anticipates that application of the amendment will have no effect on the Group’s consolidated financial statements.

Amendments to IAS 27 Separate Financial Statements
Equity Method in Separate Financial Statements
(Effective for annual periods beginning on or after January 1, 2016)

The amendments include the introduction of an option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment.

The Group anticipates that application of the amendment will have no effect on the Group’s consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements
Disclosure Initiative
(Effective for annual periods beginning on or after January 1, 2016)

The amendments to IAS 1 Presentation of Financial Statements clarify the existing IAS 1 disclosure requirements.

The amendments being made to IAS 1 include:
- How to apply the concept of materiality in practice.
- Line items in primary financial statements may be disaggregated, and new requirements added regarding the use of subtotals.
- The order of notes to the financial statements is entity’s choice, considering understandability and comparability of financial statements.
- The examples in IAS 1.120 in respect of accounting policies for income taxes and foreign exchange gains and losses have been removed.
- For equity accounted investments, an entity’s share of other comprehensive income will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

The Group anticipates that application of the amendment will have no effect on the Group’s consolidated financial statements.
Translation from the Russian original

3. Summary of accounting policies (continued)

Annual Improvements to IFRSs (2012-2014 Cycle)

These improvements become effective on or after July 1, 2016 and are applied by the Group for the first time in these consolidated financial statements. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. In the current reporting period the Group has not recognised disposal of assets.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. This amendment has no effect on the Group because it does not have a continuing involvement in financial assets which are generally derecognised.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however. Such approach complies with the current accounting policy of the Group and, therefore, does not affect its accounting policy.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. Such approach complies with the current accounting policy of the Group and, therefore, does not affect its accounting policy.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. Such approach complies with the current accounting policy of the Group and, therefore, does not affect its accounting policy.
3. **Summary of accounting policies (continued)**

**New standards, interpretations and amendments issued, but not yet effective**

During the year the Group applied the following revised IFRSs and interpretations effective for annual periods beginning on or after January 1, 2015:

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

**Basis of consolidation**

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss.
Translation from the Russian original

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures such financial instruments as trading and available for sale securities and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets (continued)

**Financial assets at fair value through profit or loss**

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

**Investments held to maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments held to maturity are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process. Held to maturity investments are recognised as investment financial assets in the consolidated statement of financial position.

**Loans and receivables**

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

**Financial assets available for sale**

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

**Reclassification of financial assets**

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

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

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

3. Summary of accounting policies (continued)

Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Cash and cash equivalents

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

Obligatory reserves with the Central Bank

Obligatory reserves with the Central Bank represent mandatory reserve deposits with the CBR, which are not available to finance the Bank’s day-to-day operations. The mandatory reserve balance with the CBR is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Repurchase and reverse repurchase agreements and securities lending

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

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

In the normal course of business, the Group enters into derivative financial instruments, in particular, cross currency interest rate swaps. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from financial assets at fair value through profit or loss or net gains/(losses) from foreign currencies (trade transactions), or gains less losses from derivative financial instruments, depending on the nature of the financial instrument.

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

Promissory notes

Promissory notes purchased are included in investment financial assets available for sale, or in amounts due from credit institutions or in loans to customers, depending on the aim and terms of their purchase. They are recognised in the consolidated financial statements in accordance with the accounting policies for these categories of assets.

Borrowings

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

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

Leases

i. Finance – Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group’s incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.
3. Summary of accounting policies (continued)

Leases (continued)

ii. Finance – Group as lessor

The Group recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

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

iv. Operating – Group as lessor

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

Measurement of financial instruments at initial recognition

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

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

• if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;

• in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the deferred difference as gain or loss only when the inputs become observable, or the instrument is derecognized.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only 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 to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.
3. **Summary of accounting policies (continued)**

**Impairment of financial assets**

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

**Amounts due from credit institutions and financing of credit institutions under the program of extending loans to small and medium enterprises and loans to customers and accounts receivable**

For amounts due from credit institutions and loans to customers and accounts receivable carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group’s internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial investments held to maturity

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recognized in the consolidated income statement.

Financial investments available for sale

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized in other comprehensive income.

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

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.
Translation from the Russian original

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

Russia also has various other taxes, which are assessed on the Group’s activities. These taxes are recorded as administrative and other operating expenses in the consolidated income statement.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.
Translation from the Russian original

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>6-7</td>
</tr>
<tr>
<td>Computers and office equipment</td>
<td>4</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>5</td>
</tr>
</tbody>
</table>

Leasehold improvements are amortized during the lease term. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Impairment of non-financial assets

Non-financial assets, other than deferred taxes and investment property, are tested at each reporting date for any indications of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. Costs to sell are the costs associated with disposal of an asset tested for impairment, less finance costs. Value in use of an asset reviewed for impairment is the present value of the future cash flows expected to be derived by the Group from the use of an asset and its subsequent disposal.

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

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in other assets or investment property, depending on their nature and the Group’s intentions as regards collection of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank’s management is committed to a plan to sell the non-current asset (or disposal group). The Bank should initiate a program for finding a purchaser and fulfilling the above plan. In addition, the non-current asset (or disposal group) should be offered for sale at a reasonable price based on its current fair value. Moreover, the sale as a completed transaction should be recognized within one year from the date of classification of the non-current asset (or disposal group) as held for sale.
3. Summary of accounting policies (continued)

Assets classified as held for sale (continued)

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-off of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Share capital

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

Treasury shares

Where the Bank or its subsidiaries purchase the Bank’s shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed at the general shareholders’ meeting before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When a grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the consolidated income statement over the expected useful life of the underlying asset by equal annual instalments. Where loans or similar assistance are provided by government or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.
3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

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

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

Fee and commission income

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

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Group’s right to receive the payment is established.
3. **Summary of accounting policies (continued)**

### Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is the Bank’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official Central Bank exchange rates as of December 31, 2016 and December 31, 2015 were RUB 60.6569 and RUB 72.8827 to USD 1, respectively.

### Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group shall report separately in its consolidated financial statements information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
  - the combined reported profit of all operating segments that did not report a loss in the reporting period;
  - the combined reported loss of all operating segments that reported a loss in the reporting period;
- its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the consolidated financial statements.

As information is provided from management accounting data, and the received data may differ from the data in the financial statements prepared under IFRS, reconciliations of the followings items are made with disclosure of the underlying reasons for differences:

- the total of the reportable segments’ revenues to the Group’s revenue;
- the total of the reportable segments’ measures of profit or loss to the Group’s profit or loss before tax expense (tax income) and discontinued operations. However, if the Group allocates to reportable segments items such as tax expense (tax income), the Group may reconcile the total of the segments’ measures of profit or loss to the Group’s profit or loss after those items;
- the total of the reportable segments’ assets to the Group’s assets;
- the total of the reportable segments’ liabilities to the Group’s liabilities;
- the total of the reportable segments’ amounts for every other material item of information disclosed to the corresponding amount for the Group.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the Group’s profit or loss arising from different accounting policies shall be separately identified and described.

The Group operates one business segment (banking) and carries out most of its operations in the Russian Federation. Therefore, segment analysis is not presented in these consolidated financial statements.
3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but no impact on the classification and measurement of the Group’s financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the compensation to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early application permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

(Effective for annual periods beginning on or after January 1, 2019)

IFRS 16 was issued in January 2016. It contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements.

The application of the standard may affect the accounting for the Group’s operating leases. The Group is currently unable to determine to what extent these liabilities will result in recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.
Translation from the Russian original

3. Summary of accounting policies (continued)

Amendments to IAS 7
Disclosure Initiative
(Effective for annual periods beginning on or after January 1, 2017)
The amendments require entities to provide a reconciliation of the opening and closing carrying amounts of each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows (e.g. borrowing, lease liabilities).
The Group anticipates that application of the amendment will have an insignificant effect on the disclosures of certain items in its consolidated financial statements.

Amendments to IAS 12
Recognition of Deferred Tax Assets for Unrealised Losses
(Effective for annual periods beginning on or after January 1, 2017)
IAS 12 Income Taxes was amended to clarify that:
- deductible temporary differences arise from unrealised losses on debt instruments measured at fair value, regardless of whether the instrument is recovered through sale or by holding it to maturity;
- the estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount;
- where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and
- tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.
The Group anticipates that application of the amendments will not have any material effect on the Group's consolidated financial statements.

Amendments to IFRS 2
Classification and Measurement of Share-based Payment Transactions
(Effective for annual periods beginning on or after January 1, 2018)
The amendments clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.
The Group anticipates that application of the amendments will not have any material effect on the Group's consolidated financial statements.
4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Estimation uncertainty

In the process of applying the Group’s accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 25.

Changes made in the consolidated financial statements

In view of materiality of estimated liabilities as of December 31, 2016, the Group decided to recognise estimated liabilities as a separate line in the consolidated statement of financial position. Comparative figures for 2015 were changed, estimated liabilities in the amount of RUB 75,392 thousand were reported separately from other liabilities in the consolidated statement of financial position. This reclassification was not material for items of the consolidated statement of financial position as of December 31, 2014. Other liabilities amounted to RUB 247,745 thousand as of December 31, 2014, including estimated liabilities of RUB 76,973 thousand.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess the impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower or debtor is in financial difficulties and there are few available sources of historical data relating to similar borrowers or debtors. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers or debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.
5. **Cash and cash equivalents**

Cash is neither impaired nor past due and comprises:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Correspondent accounts with the Central Bank</td>
<td>832,781</td>
<td>931,091</td>
</tr>
<tr>
<td>Correspondent nostro accounts with Russian banks</td>
<td>695,838</td>
<td>436,277</td>
</tr>
<tr>
<td>Correspondent nostro accounts with OECD-based banks</td>
<td>39,727</td>
<td>388,223</td>
</tr>
<tr>
<td>Loans and deposits with the Central Bank up to 90 days</td>
<td>9,502,336</td>
<td>–</td>
</tr>
<tr>
<td>Loans and deposits with Russian banks up to 90 days</td>
<td>700,193</td>
<td>3,160,585</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td><strong>11,770,876</strong></td>
<td><strong>4,916,178</strong></td>
</tr>
</tbody>
</table>

Cash and cash equivalents are neither impaired nor past due at the end of 2016 and 2015.

As of December 31, 2016, loans and deposits with the Central Bank are denominated in RUB and placed at 9.00% p.a. with maturity date in January 2017.

As of December 31, 2016, loans and deposits with Russian banks are denominated in RUB and placed at 10.00% to 10.20% p.a. with maturity date in January 2017.

As of December 31, 2015, loans and deposits with Russian banks are denominated in RUB and placed at 5.00% to 11.25% p.a. with maturity date in January 2016.

6. **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are neither impaired nor past due and comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds (banks)</td>
<td>607,263</td>
<td>3,541,990</td>
</tr>
<tr>
<td>Russian Federal bonds (OFZ)</td>
<td>209,514</td>
<td>410,732</td>
</tr>
<tr>
<td>Other debt securities</td>
<td>67,904</td>
<td>160,212</td>
</tr>
<tr>
<td>Eurobonds issued by Russian and foreign entities</td>
<td>–</td>
<td>367,629</td>
</tr>
<tr>
<td><strong>Total trading financial assets</strong></td>
<td><strong>884,681</strong></td>
<td><strong>4,480,563</strong></td>
</tr>
</tbody>
</table>

**Financial assets at fair value through profit or loss**

Financial assets designated at fair value through profit or loss at initial recognition

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total financial assets at fair value through profit or loss</strong></td>
<td><strong>298,374</strong></td>
<td><strong>304,294</strong></td>
</tr>
<tr>
<td><strong>Total financial assets at fair value through profit or loss</strong></td>
<td><strong>298,374</strong></td>
<td><strong>304,294</strong></td>
</tr>
</tbody>
</table>

**Financial assets at fair value through profit or loss, pledged under repo agreements**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federal bonds (OFZ)</td>
<td>5,587,960</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total financial assets at fair value through profit or loss, pledged under repo agreements</strong></td>
<td><strong>5,587,960</strong></td>
<td><strong>–</strong></td>
</tr>
</tbody>
</table>
6. Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are pledged under repo agreements with credit institutions (Note 16).

<table>
<thead>
<tr>
<th></th>
<th>Interest rate 2016</th>
<th>Redemption 2016</th>
<th>Interest rate 2015</th>
<th>Redemption 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federal bonds (OFZ)</td>
<td>10.74% -11.90%</td>
<td>January 2020 – January 2025</td>
<td>11.98%</td>
<td>December 2017</td>
</tr>
<tr>
<td>Corporate bonds (banks)</td>
<td>12.00%-15.00%</td>
<td>April 2018 – May 2021</td>
<td>10.90%-16.00%</td>
<td>April 2016 – April 2022</td>
</tr>
<tr>
<td>Other debt securities</td>
<td>3.50%</td>
<td>October 2019</td>
<td>3.50%</td>
<td>October 2019</td>
</tr>
<tr>
<td>Eurobonds issued by Russian and foreign entities</td>
<td>–</td>
<td>–</td>
<td>4.45%-5.20%</td>
<td>March 2018 – February 2019</td>
</tr>
</tbody>
</table>

Corporate bonds are represented by bonds of Russian banks. Financial assets initially designated as at fair value through profit or loss are represented by investments in the consolidated CMF "MIR" as equity interest in companies engaged in production of high-tech composites, development and implementation of technologies for creation of inorganic compounds used in the sphere of innovative biopharmaceuticals.

7. Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions

Financing of credit institutions under the program of extending loans to small and medium enterprises:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises</td>
<td>80 618 913</td>
<td>92 863 508</td>
</tr>
<tr>
<td>Promissory notes</td>
<td>472 182</td>
<td>403 102</td>
</tr>
<tr>
<td>Other deposits with credit institutions</td>
<td>20 762</td>
<td>23 939</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81 111 857</strong></td>
<td><strong>93 290 549</strong></td>
</tr>
<tr>
<td>Less: allowance for impairment</td>
<td>(10 481 632)</td>
<td>(6 009 165)</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td><strong>70 630 225</strong></td>
<td><strong>87 281 384</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2016 and December 31, 2015, promissory notes are represented by promissory notes of major Russian banks with maturity in December 2018–August 2020.

As of December 31, 2016, other deposits with credit institutions represent funds for the collective clearing collateral in the amount of RUB 20 762 thousand.

As of December 31, 2015, other deposits with credit institutions represent funds for the collective clearing collateral in the amount of RUB 23 939 thousand.

The Bank’s principal activities are focused on extending loans to small and medium enterprises (hereinafter, “SMEs”) engaged in manufacturing and innovation. Since 2004, the Bank has been implementing the Federal Program for Small and Medium Enterprise Support. Financial support for SMEs is provided through regional partner-banks and infrastructure organizations (leasing and factoring companies, microfinance organizations, regional funds for small and medium enterprise support).
7. Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions (continued)

As of December 31, 2016, part of the credit institutions funding extended under the program of extending loans to SMEs bore below-market interest rates. As a result, at initial recognition the Group recognized the loans at fair value and recorded losses for 2016 totalling RUB 4,366,853 thousand (2015: RUB 7,799,936 thousand) from the initial recognition of financial instruments within gains less losses on initial recognition of financial instruments in the consolidated income statement (Note 17).

Allowance for impairment

The movements in allowance for impairment of funds intended for financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises</td>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises</td>
</tr>
<tr>
<td></td>
<td>Other deposits with credit institutions</td>
<td>Other deposits with credit institutions</td>
</tr>
<tr>
<td>At January 1</td>
<td>6,009,165</td>
<td>2,429,481</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>4,473,457</td>
<td>3,579,684</td>
</tr>
<tr>
<td>Write-offs</td>
<td>(990)</td>
<td>(4,174)</td>
</tr>
<tr>
<td>At December 31</td>
<td>10,481,632</td>
<td>6,009,165</td>
</tr>
<tr>
<td>Individual impairment</td>
<td>9,532,814</td>
<td>5,186,585</td>
</tr>
<tr>
<td>Collective impairment</td>
<td>948,818</td>
<td>822,580</td>
</tr>
<tr>
<td></td>
<td>10,481,632</td>
<td>6,009,165</td>
</tr>
<tr>
<td>Gross amount of loans, individually determined to be impaired, before impairment allowance</td>
<td>13,400,852</td>
<td>5,186,585</td>
</tr>
</tbody>
</table>

Amounts due from credit institutions and financing of credit institutions under the program of extending loans to small and medium enterprises, individually determined to be impaired

The value of the collateral received by the Group with respect to the amounts due from credit institutions and the financing of credit institutions under the program of extending loans to small and medium enterprises, individually determined to be impaired as of December 31, 2016, is RUB 13,593,551 thousand (2015: RUB 5,307,125 thousand).

Collateral and other credit enhancements

The financing of credit institutions under the program of extending loans to small and medium enterprises is secured by receivables (liabilities) from ultimate borrowers. Other deposits with credit institutions are unsecured due to short maturity of such placements.

Management monitors collateral and requests additional information on whether the funding granted is used for the designated purpose during its review of the adequacy of the allowance for loan impairment.

Derecognition of amounts due from credit institutions and financing of credit institutions under the program of extending loans to small and medium enterprises

In accordance with the Central Bank requirements, loans issued, including amounts due from credit institutions, may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the Court.
7. Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions (continued)

Concentration of funds placed with credit institutions under the program of extending loans to small and medium enterprises

As of December 31, 2016, financing of credit institutions under the program of extending loans to small and medium enterprises includes loans of RUB 13 963 967 thousand issued to three major borrowers (17.3% of total portfolio). An allowance of RUB 2 640 339 thousand was created against these loans. As of December 31, 2015, financing of credit institutions under the program of extending loans to small and medium enterprises includes loans of RUB 15 701 510 thousand issued to three major borrowers (16.9% of total portfolio). An allowance of RUB 147 311 thousand was created against these loans.

As of December 31, 2016, financing of credit institutions under the program of extending loans to small and medium enterprises includes loans of RUB 41 149 096 thousand issued to ten major borrowers (51.0% of total portfolio). An allowance of RUB 3 023 979 thousand was created against these loans. As of December 31, 2015, financing of credit institutions under the program of extending loans to small and medium enterprises includes loans of RUB 38 881 171 thousand issued to ten major borrowers (41.9% of total portfolio). An allowance of RUB 364 781 thousand was created against these loans.

8. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the consolidated financial statements, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and the credit risk.

<table>
<thead>
<tr>
<th></th>
<th>2016 Notional principal</th>
<th>2016 Fair value</th>
<th>2015 Notional principal</th>
<th>2015 Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Asset</td>
<td>Liability</td>
<td>Asset</td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwards and swaps – foreign</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14 666 601</td>
</tr>
<tr>
<td>Total derivative assets/ liabilities</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14 666 601</td>
</tr>
</tbody>
</table>

For the year ended December 31, 2016 the Group recognised losses from derivative financial instruments in the amount of RUB 1 257 039 thousand. For the year ended December 31, 2015 the Group recognised gains from derivative financial instruments in the amount of RUB 1 475 919 thousand.

Foreign exchange contracts in the table above represent forwards and swaps with non-residents of the Russian Federation.

As of December 31, 2016, the Group has no position in derivative financial instruments.

As of December 31, 2015, the Group has positions in the following types of derivatives:

**Swaps**

Swaps are contractual agreements between two parties to exchange amounts equal to the change in interest rates, foreign currency rates or equity indices, and (in the case of credit default swaps) to make payments with respect to specified credit events based on notional amounts.

**Forwards**

Forwards are customized contracts transacted in the over-the-counter market.
Translation from the Russian original

9. Loans to customers

Loans to customers comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business lending</td>
<td>11 550 880</td>
<td>10 387 497</td>
</tr>
<tr>
<td>Corporate lending and finance lease receivables</td>
<td>6 887 378</td>
<td>1 195 034</td>
</tr>
<tr>
<td>Project financing</td>
<td>211 233</td>
<td>211 893</td>
</tr>
<tr>
<td><strong>Gross loans to customers</strong></td>
<td><strong>18 649 491</strong></td>
<td><strong>11 794 424</strong></td>
</tr>
<tr>
<td>Less: allowance for impairment</td>
<td>(3 585 984)</td>
<td>(2 387 251)</td>
</tr>
<tr>
<td><strong>Loans to customers</strong></td>
<td><strong>15 063 507</strong></td>
<td><strong>9 407 173</strong></td>
</tr>
</tbody>
</table>

The Group’s principal activities are focused on extending loans to small and medium enterprises engaged in manufacturing and innovation. Since 2004, the Group has been implementing the Federal Program for Small and Medium Enterprise Support. Financial support for SMEs is provided through regional partner-banks and infrastructure organizations (leasing and factoring companies, microfinance organizations, regional funds for small and medium enterprise support).

As of December 31, 2016, part of the loans extended to the infrastructure organizations bore below-market interest rates. As a result, at initial recognition the Group recognized the loans at fair value, and recorded losses totalling RUB 119 497 thousand (2015: RUB 149 910 thousand) from the initial recognition of financial instruments within gains less losses on initial recognition of financial instruments in the consolidated income statement (Note 17).

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Small business lending</th>
<th>Project financing</th>
<th>Corporate lending and finance lease receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2016</td>
<td>1 401 693</td>
<td>211 893</td>
<td>773 665</td>
<td>2 387 251</td>
</tr>
<tr>
<td>Charge/(reversal) for the year</td>
<td>601 137</td>
<td>(660)</td>
<td>598 256</td>
<td>1 198 733</td>
</tr>
<tr>
<td>At December 31, 2016</td>
<td>2 002 830</td>
<td>211 233</td>
<td>1 371 921</td>
<td>3 585 984</td>
</tr>
<tr>
<td>Individual impairment</td>
<td>1 775 126</td>
<td>211 233</td>
<td>857 770</td>
<td>2 844 129</td>
</tr>
<tr>
<td>Collective impairment</td>
<td>227 704</td>
<td>–</td>
<td>514 151</td>
<td>741 855</td>
</tr>
<tr>
<td></td>
<td>2 002 830</td>
<td>211 233</td>
<td>1 371 921</td>
<td>3 585 984</td>
</tr>
</tbody>
</table>

Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance

|                                | 2 141 602 | 211 233 | 930 338 | 3 283 173 |
Translation from the Russian original

9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

<table>
<thead>
<tr>
<th></th>
<th>Small business lending</th>
<th>Project financing</th>
<th>Corporate lending and finance lease receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2015</td>
<td>749,294</td>
<td>213,074</td>
<td>1,019,242</td>
<td>1,981,610</td>
</tr>
<tr>
<td>Charge (reversal) for the year</td>
<td>652,399</td>
<td>(1,181)</td>
<td>(2,399,944)</td>
<td>411,274</td>
</tr>
<tr>
<td>Write-offs</td>
<td></td>
<td></td>
<td>(5,633)</td>
<td>(5,633)</td>
</tr>
<tr>
<td>At December 31, 2015</td>
<td>1,401,693</td>
<td>211,893</td>
<td>773,665</td>
<td>2,387,251</td>
</tr>
<tr>
<td>Individual impairment</td>
<td>1,169,583</td>
<td>211,893</td>
<td>745,384</td>
<td>2,126,660</td>
</tr>
<tr>
<td>Collective impairment</td>
<td>232,110</td>
<td></td>
<td>28,281</td>
<td>260,391</td>
</tr>
<tr>
<td>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</td>
<td>1,320,730</td>
<td>211,893</td>
<td>745,384</td>
<td>2,278,007</td>
</tr>
</tbody>
</table>

Individually impaired loans

Interest income accrued on loans individually determined to be impaired for the year ended December 31, 2016, comprised RUB 26,373 thousand. Interest income accrued on loans individually determined to be impaired for the year ended December 31, 2015, comprised RUB 23,011 thousand.

The value of collateral that the Group holds relating to loans individually determined to be impaired as of December 31, 2016 is RUB 10,165,739 thousand. The value of collateral that the Group holds relating to loans individually determined to be impaired as of December 31, 2015 is RUB 6,522,892 thousand.

In accordance with the Central Bank requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required by the Group depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for corporate lending include charges over real estate properties, inventory and receivables, promissory notes, equities and other.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of December 31, 2016, loans issued to three major borrowers amounted to RUB 6,480,145 thousand (34.7% of total loan portfolio). An allowance was created against these loans in the amount of RUB 1,248,126 thousand. As of December 31, 2015, loans issued to three major borrowers amounted to RUB 2,191,254 thousand (18.6% of total loan portfolio). An allowance was created against three loans in the amount of RUB 56,096 thousand.
9. **Loans to customers (continued)**

**Concentration of loans to customers (continued)**

As of December 31, 2016, loans issued to ten major independent borrowers amounted to RUB 10 453 860 thousand (56.1% of total loan portfolio). An allowance was created against these loans in the amount of RUB 1 344 289 thousand. As of December 31, 2015, loans issued to ten major independent borrowers amounted to RUB 5 040 294 thousand (42.7% of total loan portfolio). An allowance was created against these loans in the amount of RUB 888 482 thousand.

The structure of the loan portfolio by type of customers is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private companies</td>
<td>16 724 585</td>
<td>9 894 826</td>
</tr>
<tr>
<td>State companies</td>
<td>1 924 906</td>
<td>1 899 598</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18 649 491</strong></td>
<td><strong>11 794 424</strong></td>
</tr>
</tbody>
</table>

Loans are granted mainly to customers in Russia in the following industry sectors:

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and leasing</td>
<td>16 264 701</td>
<td>10 317 345</td>
</tr>
<tr>
<td>Manufacturing, including heavy machinery and military production</td>
<td>1 212 051</td>
<td>907 648</td>
</tr>
<tr>
<td>Construction</td>
<td>322 428</td>
<td>243 761</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>166 050</td>
<td>186 710</td>
</tr>
<tr>
<td>Trade</td>
<td>134 131</td>
<td>2 589</td>
</tr>
<tr>
<td>Agricultural sector</td>
<td>97 211</td>
<td>30 637</td>
</tr>
<tr>
<td>Food industry</td>
<td>91 667</td>
<td>–</td>
</tr>
<tr>
<td>Transport</td>
<td>88 883</td>
<td>2 197</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>42 174</td>
<td>43 785</td>
</tr>
<tr>
<td>Other</td>
<td>210 195</td>
<td>59 752</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18 649 491</strong></td>
<td><strong>11 794 424</strong></td>
</tr>
</tbody>
</table>

**Finance lease receivables**

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as of December 31, 2016 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Not later than 1 year</th>
<th>Later than 1 year and not later than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance lease receivables</td>
<td>46 710</td>
<td>62 274</td>
<td>108 984</td>
</tr>
<tr>
<td>Unearned future finance income on finance leases</td>
<td>(4 117)</td>
<td>(19 768)</td>
<td>(23 885)</td>
</tr>
<tr>
<td><strong>Net investment in finance leases</strong></td>
<td><strong>42 593</strong></td>
<td><strong>42 506</strong></td>
<td><strong>85 099</strong></td>
</tr>
</tbody>
</table>

The analysis of accounts receivable under finance leases as of December 31, 2015 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Not later than 1 year</th>
<th>Later than 1 year and not later than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance lease receivables</td>
<td>91 008</td>
<td>107 461</td>
<td>198 469</td>
</tr>
<tr>
<td>Unearned future finance income on finance leases</td>
<td>(9 881)</td>
<td>(38 779)</td>
<td>(48 660)</td>
</tr>
<tr>
<td><strong>Net investment in finance leases</strong></td>
<td><strong>81 127</strong></td>
<td><strong>68 682</strong></td>
<td><strong>149 809</strong></td>
</tr>
</tbody>
</table>
10. Investment financial assets

Financial assets available for sale comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>7,496,256</td>
<td>3,676,883</td>
</tr>
<tr>
<td>Other debt securities</td>
<td>1,517,652</td>
<td>50,443</td>
</tr>
<tr>
<td>Eurobonds issued by Russian entities</td>
<td>123,860</td>
<td>–</td>
</tr>
<tr>
<td>Promissory notes</td>
<td>3,540</td>
<td>4,829,782</td>
</tr>
<tr>
<td>Contribution to other companies’ share capital</td>
<td>23,000</td>
<td>23,000</td>
</tr>
</tbody>
</table>

**Financial assets available for sale**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>9.35% - 14.50%</td>
<td>December 2017 – June 2031</td>
</tr>
<tr>
<td>Other debt securities</td>
<td>9.50% - 12.00%</td>
<td>July 2020 – November 2024</td>
</tr>
<tr>
<td>Eurobonds issued by Russian entities</td>
<td>5.38%</td>
<td>June 2023</td>
</tr>
<tr>
<td>Promissory notes of the banks</td>
<td>9.76%</td>
<td>December 2017 – 4.5% - 16.50%</td>
</tr>
</tbody>
</table>

As of December 31, 2016 and 2015, promissory notes and corporate bonds classified as financial assets available for sale are issued by a number large Russian companies.

As of December 31, 2016 and 2015, other debt securities classified as financial assets available for sale represent bonds issued by banks.

As of December 31, 2016, financial assets available for sale include collateralized bonds ("class A bonds") of OOO “SFO PSB MSB 2015” established to implement a project for securitizing SME loan portfolio of PAO “Promsvyazbank”. The Group acted as a deal maker and anchor investor in securitization of loans issued to SME. The monthly coupon on class A bonds was set at 10.25% p.a. As of December 31, 2016, the fair value of these bonds was RUB 2,645,537 thousand. In January 2017 the bonds of OOO “SFO PSB MSB 2015” were included in the Lombard list of the Bank of Russia.

For the year ended December 31, 2015 in respect of OOO Vneshprombank promissory notes classified as financial assets available for sale the Group recognised an impairment loss of RUB 260,000 thousand equal to the full amount of the said promissory notes. This impairment loss was written off from the comprehensive income and recognised in the income statement for 2015.

Financial assets held to maturity comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>73,689</td>
<td>73,689</td>
</tr>
<tr>
<td>Less: allowance for impairment</td>
<td>(73,689)</td>
<td>(73,689)</td>
</tr>
</tbody>
</table>

**Financial assets held to maturity**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

As of December 31, 2016 and 2015, the allowance for impairment of investment financial assets held to maturity amounted to RUB 73,689 thousand. The impairment allowance is deducted from the carrying amount of the respective assets. There were no movements in this allowance in 2016 and 2015.
Translation from the Russian original

11. Property and equipment

The movements in property and equipment were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Furniture, fixtures and inseparable improvements</th>
<th>Computers and office equipment</th>
<th>Motor vehicles</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At December 31, 2015</td>
<td>332 190</td>
<td>114 031</td>
<td>36 455</td>
<td>633</td>
<td>483 309</td>
</tr>
<tr>
<td>Additions</td>
<td>3 678</td>
<td>43 745</td>
<td>–</td>
<td>–</td>
<td>47 423</td>
</tr>
<tr>
<td>Disposals and write-offs</td>
<td>(1.171)</td>
<td>(530)</td>
<td>(1 535)</td>
<td>(633)</td>
<td>(3 869)</td>
</tr>
<tr>
<td><strong>At December 31, 2016</strong></td>
<td><strong>334 697</strong></td>
<td><strong>157 246</strong></td>
<td><strong>34 920</strong></td>
<td>–</td>
<td><strong>526 863</strong></td>
</tr>
</tbody>
</table>

Accumulated depreciation and impairment

<table>
<thead>
<tr>
<th></th>
<th>Furniture, fixtures and inseparable improvements</th>
<th>Computers and office equipment</th>
<th>Motor vehicles</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At December 31, 2015</strong></td>
<td><strong>192 046</strong></td>
<td><strong>75 978</strong></td>
<td><strong>15 351</strong></td>
<td>–</td>
<td><strong>283 375</strong></td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>54 642</td>
<td>22 419</td>
<td>7 390</td>
<td>–</td>
<td>84 451</td>
</tr>
<tr>
<td>Disposals and write-offs</td>
<td>(1 065)</td>
<td>(530)</td>
<td>(615)</td>
<td>–</td>
<td>(2 210)</td>
</tr>
<tr>
<td><strong>At December 31, 2016</strong></td>
<td><strong>245 623</strong></td>
<td><strong>97 867</strong></td>
<td><strong>22 126</strong></td>
<td>–</td>
<td><strong>365 616</strong></td>
</tr>
</tbody>
</table>

**Net book value**

<table>
<thead>
<tr>
<th></th>
<th>Furniture, fixtures and inseparable improvements</th>
<th>Computers and office equipment</th>
<th>Motor vehicles</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At December 31, 2015</strong></td>
<td><strong>140 144</strong></td>
<td><strong>38 053</strong></td>
<td><strong>21 104</strong></td>
<td>633</td>
<td><strong>199 934</strong></td>
</tr>
<tr>
<td><strong>At December 31, 2016</strong></td>
<td><strong>89 074</strong></td>
<td><strong>59 379</strong></td>
<td><strong>12 794</strong></td>
<td>–</td>
<td><strong>161 247</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2016, the gross carrying amount of fully depreciated property and equipment that are still in use is RUB 25 567 thousand (December 31, 2015: RUB 25 567 thousand).
Translation from the Russian original

12. Taxation

Income tax expense comprises:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax charge</td>
<td>77,155</td>
<td>101,152</td>
</tr>
<tr>
<td>Deferred tax charge – origination and reversal of temporary differences</td>
<td>(1,423,192)</td>
<td>738,111</td>
</tr>
<tr>
<td><strong>Income tax expense/(recovery)</strong></td>
<td><strong>(1,346,037)</strong></td>
<td><strong>839,263</strong></td>
</tr>
</tbody>
</table>

Russian legal entities must file individual tax declarations. The income tax rate for companies (including banks) was 20% for 2016 and 2015. In 2016 and 2015, corporate income tax rate applicable to interest (coupon) income on state bonds, municipal bonds and mortgage-backed bonds was 15%, while corporate income tax rate applicable to interest (coupon) income on municipal bonds issued before January 1, 2007 for a term not exceeding 3 years was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which can be reduced to 0% subject to certain criteria.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Loss)/profit before tax</td>
<td>(5,077,562)</td>
<td>4,172,815</td>
</tr>
<tr>
<td>Statutory tax rate</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Theoretical income tax (recovery)/ charge at the statutory tax rate</strong></td>
<td><strong>(1,015,512)</strong></td>
<td><strong>834,563</strong></td>
</tr>
<tr>
<td>State securities income taxed at different rates</td>
<td>(25,614)</td>
<td>(4,624)</td>
</tr>
<tr>
<td>Non-deductible administrative and other operating expenses</td>
<td>8,061</td>
<td>6,631</td>
</tr>
<tr>
<td>Non-deductible expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- effect of derivative transactions</td>
<td>(251,619)</td>
<td></td>
</tr>
<tr>
<td>Other differences</td>
<td>(61,353)</td>
<td>2,693</td>
</tr>
<tr>
<td><strong>Income tax expense/(recovery)</strong></td>
<td><strong>(1,346,037)</strong></td>
<td><strong>839,263</strong></td>
</tr>
</tbody>
</table>
12. Taxation (continued)

Deferred tax assets and liabilities as of December 31 and their movements for the respective years comprise:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due from banks</td>
<td>419 792</td>
<td>1 413 060</td>
<td>1 832 852</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>39 446</td>
<td>(44 852)</td>
<td>(5 406)</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>255 434</td>
<td>(37 662)</td>
<td>217 772</td>
</tr>
<tr>
<td>Financial assets held to maturity</td>
<td>14 738</td>
<td>–</td>
<td>14 738</td>
</tr>
<tr>
<td>Securities issued</td>
<td>(4 499)</td>
<td>2 326</td>
<td>(2 173)</td>
</tr>
<tr>
<td>Other assets</td>
<td>11 357</td>
<td>(47 118)</td>
<td>4 326</td>
</tr>
<tr>
<td>Deferred tax asset from tax loss carryforward</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>24 517</td>
<td>3 218</td>
<td>27 735</td>
</tr>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td>839 872</td>
<td>1 288 972</td>
<td>2 128 844</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment and investment property</td>
<td>(2 223)</td>
<td>34 752</td>
<td>32 529</td>
</tr>
<tr>
<td>Financial assets available for sale</td>
<td>(13 918)</td>
<td>199 323</td>
<td>7 603</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>(340 126)</td>
<td>1 104 703</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
<td>–</td>
<td>(815 029)</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>(508 600)</td>
<td>(2 550 841)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Deferred tax liability</strong></td>
<td>(864 667)</td>
<td>(2 227 083)</td>
<td>7 603</td>
</tr>
<tr>
<td><strong>Deferred tax (liability) asset</strong></td>
<td>(24 995)</td>
<td>(738 111)</td>
<td>7 603</td>
</tr>
</tbody>
</table>

For the year ended December 31, 2016 an accumulated tax loss of RUB 5 377 158 thousand (2015: none) was recognised in the Group’s statutory tax records. In accordance with the applicable legislation of the Russian Federation, banks can utilise the tax loss carryforwards against the profits of future reporting periods.

A tax benefit in the amount of RUB 1 075 432 thousand (2015: none) associated with the above tax loss was recognized within the Group’s deferred tax assets as of December 31, 2016, as it is probable that the sufficient taxable profit will be available against which the unused tax loss can be utilised.
Translation from the Russian original

13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Other assets</th>
<th>Provisions for guarantees issued</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At December 31, 2015</strong></td>
<td>10 284</td>
<td>76 973</td>
<td>87 257</td>
</tr>
<tr>
<td>Charge/(reversal)</td>
<td>744 759</td>
<td>(1 581)</td>
<td>743 178</td>
</tr>
<tr>
<td><strong>At December 31, 2015</strong></td>
<td>755 043</td>
<td>75 392</td>
<td>830 435</td>
</tr>
<tr>
<td>Charge</td>
<td>242 422</td>
<td>1 135 940</td>
<td>1 378 362</td>
</tr>
<tr>
<td><strong>At December 31, 2016</strong></td>
<td>997 465</td>
<td>1 211 332</td>
<td>2 208 797</td>
</tr>
</tbody>
</table>

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In the consolidated income statement these allowances and provisions are recorded in other operating expenses (Note 23).

As of December 31, 2016, allowances for other assets include impairment of repossessed collateral under overdue finance leases in the amount of RUB 728 663 thousand as well as an allowance for prepayments for leasing operations in the amount of RUB 288 802 thousand.

As of December 31, 2015, allowances for other assets include impairment of repossessed collateral under overdue finance leases in the amount of RUB 486 252 thousand as well as an allowance for prepayments for leasing operations in the amount of RUB 268 637 thousand.

14. Other assets and liabilities

Other assets comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repossessed collateral under overdue finance leases</td>
<td>1 890 719</td>
<td>1 940 378</td>
</tr>
<tr>
<td>Prepayments for leasing operations</td>
<td>1 577 884</td>
<td>1 537 146</td>
</tr>
<tr>
<td>Input VAT</td>
<td>653 420</td>
<td>354 447</td>
</tr>
<tr>
<td>Purchase of property and equipment for leasing operations</td>
<td>570 172</td>
<td>355 725</td>
</tr>
<tr>
<td>Lease prepayments</td>
<td>161 124</td>
<td>154 875</td>
</tr>
<tr>
<td>Settlements with suppliers and other debtors</td>
<td>47 997</td>
<td>42 875</td>
</tr>
<tr>
<td>Prepayments for investments</td>
<td>14 444</td>
<td>–</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>8 775</td>
<td>44 096</td>
</tr>
<tr>
<td>Settlements with extra-budgetary funds</td>
<td>2 239</td>
<td>–</td>
</tr>
<tr>
<td>Conversion operations</td>
<td>–</td>
<td>5 717</td>
</tr>
<tr>
<td>Other</td>
<td>118 030</td>
<td>76 743</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 044 804</td>
<td>4 512 002</td>
</tr>
<tr>
<td>Less: allowance for impairment of other assets (Note 13)</td>
<td>(997 465)</td>
<td>(755 043)</td>
</tr>
<tr>
<td>Other assets</td>
<td>4 047 339</td>
<td>3 756 959</td>
</tr>
</tbody>
</table>

Other liabilities comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances received and settlements with contractors under leases</td>
<td>345 431</td>
<td>385 815</td>
</tr>
<tr>
<td>Provisions for settlements with employees</td>
<td>211 699</td>
<td>165 170</td>
</tr>
<tr>
<td>Settlements with suppliers and other creditors</td>
<td>16 331</td>
<td>12 039</td>
</tr>
<tr>
<td>Settlements with budget on taxes other than income tax</td>
<td>14 727</td>
<td>13 550</td>
</tr>
<tr>
<td>Settlements with extra-budgetary funds</td>
<td>10 283</td>
<td>–</td>
</tr>
<tr>
<td>Deferred income</td>
<td>43</td>
<td>2 134</td>
</tr>
<tr>
<td>Other</td>
<td>174 168</td>
<td>19 120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>772 682</td>
<td>597 828</td>
</tr>
</tbody>
</table>
Translation from the Russian original

15. Amounts due to the Central Bank

As of December 31, 2016, amounts due to the Central Bank include RUB-denominated loans in the amount of RUB 38,908,757 thousand that bear interest rate of 6.50% p.a. and mature from February 2019 to December 2019. These loans were received from the government through the Central Bank to implement the Federal Program of financial support for small and medium enterprises. Loans issued to the Group by the Central Bank were recognized at fair value and bear an effective interest rate from 9.78% to 11.54%. Gains from initial recognition of financial liability at below-market interest rates in the amount of RUB 2,160,519 thousand were recognized in gains less losses on initial recognition of financial instruments for 2016 in the consolidated income statement (Note 17). These loans are collateralized by the rights of claim under the inter-bank target loan agreements that relate to the issue of loans to small and medium enterprises. As of December 31, 2016, the collateral provided to the Central Bank amounted to RUB 56,619,016 thousand.

As of December 31, 2015, amounts due to the Central Bank include RUB-denominated loans in the amount of RUB 36,085,264 thousand that bear interest rate of 6.50% p.a. and mature from June 2016 to December 2018. These loans were received from the government through the Central Bank for the purpose of financial support for small and medium enterprises. Loans issued to the Group by the Central Bank were recognized at fair value and bear an effective interest rate from 10.11% to 11.73%. Gains from initial recognition of financial liability at below-market interest rates in the amount of RUB 4,851,907 thousand were recognized in gains less losses on initial recognition of financial instruments for 2015 in the consolidated income statement (Note 17). These loans are collateralized by the rights of claim under the inter-bank target loan agreements that relate to the issue of loans to small and medium enterprises. As of December 31, 2015, the collateral provided to the Central Bank amounted to RUB 48,384,403 thousand.

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term inter-bank financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>20,900,508</td>
<td>37,758,210</td>
</tr>
<tr>
<td>USD</td>
<td>10,425,746</td>
<td>901,203</td>
</tr>
<tr>
<td>Correspondent loro accounts</td>
<td>39,294</td>
<td>116,799</td>
</tr>
<tr>
<td>of Russian banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repo agreements</td>
<td>5,252,984</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to credit</td>
<td>36,618,532</td>
<td>38,776,212</td>
</tr>
<tr>
<td>institutions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**December 31, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Contractual interest rate</th>
<th>Effective interest rate</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term inter-bank financing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>6.25%</td>
<td>12.45%</td>
<td>December 2027</td>
</tr>
<tr>
<td>USD</td>
<td>3.55%</td>
<td>3.96%</td>
<td>June 2017 –</td>
</tr>
<tr>
<td>Short-term loans and deposits from banks</td>
<td></td>
<td></td>
<td>December 2017</td>
</tr>
<tr>
<td>RUB</td>
<td>8.50%-10.78%</td>
<td>8.50%-10.78%</td>
<td>January 2017 –</td>
</tr>
<tr>
<td>EUR</td>
<td>0.30%</td>
<td>0.30%</td>
<td>March 2017</td>
</tr>
</tbody>
</table>

**December 31, 2015**

<table>
<thead>
<tr>
<th></th>
<th>Contractual interest rate</th>
<th>Effective interest rate</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term inter-bank financing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>6.25%</td>
<td>12.45%</td>
<td>December 2027</td>
</tr>
<tr>
<td>USD</td>
<td>2.57% (3-month LIBOR)</td>
<td>2.57% (3-month LIBOR)</td>
<td>April 2016 –</td>
</tr>
<tr>
<td></td>
<td>+ 2.25 – 3.55%</td>
<td>+ 2.25 – 3.68%</td>
<td>December 2017</td>
</tr>
<tr>
<td>EUR</td>
<td>3.71% (6-month EURIBOR + 2.55)</td>
<td>3.71% (6-month EURIBOR + 2.55)</td>
<td>April 2016</td>
</tr>
<tr>
<td>Short-term loans and deposits from banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>5.00%-11.00%</td>
<td>5.00%-11.00%</td>
<td>January 2016</td>
</tr>
</tbody>
</table>
16. Amounts due to credit institutions (continued)

Short-term loans and deposits are deposits from various Russian banks with maturity from 10 days to one year.

As of December 31, 2016 and December 31, 2015, long-term inter-bank financing includes a loan of RUB 30 000 000 thousand received from State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" in September 2009 at the rate of 6.25% p.a. The effective interest rate for this long-term financing was 12.45% in 2016 (2015: 12.45%).

As of December 31, 2016 and December 31, 2015, long-term inter-bank financing includes a loan of USD 87 000 thousand received from State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" in September 2009 at the rate of 3.55% p.a. The Group recognised this financial instrument at the fair value. The Group partially repaid this loan in the amount of USD 71 722 thousand. As of December 31, 2016, the loan balance amounted to RUB 1 225 092 thousand (2015: RUB 3 076 397 thousand).

As of December 31, 2015, long-term inter-bank financing includes a loan of USD 200 000 thousand received from BARCLAYS BANK PLC in April 2013 at the floating rate of 3-m LIBOR + 2.25% with maturity in April 2016. At the same time, the Group and BARCLAYS BANK PLC entered into a cross currency interest rate swap for payments at the fixed interest rate of 9% p.a. and receipt of funds at the floating interest rate of 3-m LIBOR + 2.25%, with maturity in April 2016. The fair value of this loan is disclosed in Note 8.

17. Government grants and gains/losses on initial recognition of financial instruments

The Group's principal activities are focused on extending loans to small and medium enterprises (hereinafter, "SMEs") engaged in manufacturing and innovation.

For the purposes of implementing the Federal Program for Small and Medium Enterprise Support the Group obtained funding from the Central Bank (Note 15) and State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (Note 16). The funds were received in the form of loans granted at the rate below market. This funding is subsequently transferred in the form of direct loans to regional partner-banks and infrastructure organizations to facilitate lending to SMEs. In order to ensure that the interest rates offered to SMEs are at an acceptable level, in many cases direct loans are extended to partner-banks and infrastructure organizations at below-market rates. Direct loans are secured by receivables from ultimate borrowers, i.e. small and medium enterprises.

According to the Group's accounting policy, loans extended and received are initially recorded at fair value. During 2016 the Group obtained direct funding to implement the Federal Program for Small and Medium Enterprise Support from the Central Bank at below-market interest rates. The obtained loans were recognised at fair value - the effect from initial recognition, adjusted for prepayment, amounted to RUB 2 160 519 thousand as of December 31, 2016 (Note 15):

<table>
<thead>
<tr>
<th>Financial instrument</th>
<th>Amount of loans received</th>
<th>Fair value of loan at initial recognition</th>
<th>Gain on initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due to the Central Bank</td>
<td>51 025 000</td>
<td>48 864 481</td>
<td>2 160 519</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51 025 000</strong></td>
<td><strong>48 864 481</strong></td>
<td><strong>2 160 519</strong></td>
</tr>
</tbody>
</table>

This amount was fully utilised to cover losses on initial recognition of loans issued at rates below market under the Federal Program for Small and Medium Enterprise Support for 2016.
17. Government grants and gains/losses on initial recognition of financial instruments (continued)

During 2015 the Group obtained direct funding to implement the Federal Program for Small and Medium Enterprise Support from the Central Bank (Note 15) and State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (Note 16):

<table>
<thead>
<tr>
<th>Financial instrument</th>
<th>Amount of loans received</th>
<th>Fair value of loan at initial recognition</th>
<th>Gain on initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term inter-bank financing</td>
<td>30 400 685</td>
<td>19 412 336</td>
<td>10 988 349</td>
</tr>
<tr>
<td>Amounts due to the CBR</td>
<td>41 765 000</td>
<td>36 913 093</td>
<td>4 851 907</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72 165 685</strong></td>
<td><strong>56 325 429</strong></td>
<td><strong>15 840 256</strong></td>
</tr>
</tbody>
</table>

This gain was recorded as a government grant.

In addition, as part of the Federal Program for Small and Medium Enterprise Support, in 2016, the Bank issued direct loans to partner-banks and infrastructure organizations for further lending to SMEs. In many cases, direct loans are extended at below-market rates. According to the Group’s accounting policy, the loans issued in 2016 at below-market rates were recorded at fair value (Notes 7 and 9): As of December 31, 2016, loss on initial recognition resulted from funding at rates below market was partially covered by the government grant received from the Central Bank:

<table>
<thead>
<tr>
<th>Financial instrument</th>
<th>Amount of loan issued</th>
<th>Fair value of loan at initial recognition</th>
<th>Loss on initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing of credit institutions under the program of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>extending loans to small and medium enterprises</td>
<td>29 326 254</td>
<td>24 959 401</td>
<td>4 366 853</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>1 429 393</td>
<td>1 309 896</td>
<td>119 497</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30 755 647</strong></td>
<td><strong>26 269 297</strong></td>
<td><strong>4 486 350</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2015, loss on initial recognition resulted from funding at rates below market was as follows:

<table>
<thead>
<tr>
<th>Financial instrument</th>
<th>Amount of loan issued</th>
<th>Fair value of loan at initial recognition</th>
<th>Loss on initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing of credit institutions under the program of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>extending loans to small and medium enterprises</td>
<td>49 549 310</td>
<td>41 749 374</td>
<td>7 799 936</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>1 443 355</td>
<td>1 293 445</td>
<td>149 910</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50 992 665</strong></td>
<td><strong>43 042 819</strong></td>
<td><strong>7 949 846</strong></td>
</tr>
</tbody>
</table>
18. **Amounts due to customers**

Amounts due to customers include as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts</td>
<td>5 684 546</td>
<td>3 026 742</td>
</tr>
<tr>
<td>Term deposits</td>
<td>45 000</td>
<td>–</td>
</tr>
<tr>
<td><strong>Amounts due to customers</strong></td>
<td><strong>5 729 546</strong></td>
<td><strong>3 026 742</strong></td>
</tr>
<tr>
<td>Held as collateral for guarantees</td>
<td>62 928</td>
<td>–</td>
</tr>
</tbody>
</table>

As of December 31, 2016, amounts due to customers of RUB 2 451 763 thousand (42.8%) were due to the largest customer (2015: RUB 963 489 thousand (31.8%)).

As of December 31, 2016, amounts due to customers of RUB 3 843 598 thousand (67.1%) were due to the three largest customers (2015: RUB 2 058 113 thousand (68.0%)).

Amounts due to customers include accounts of the following types of customers:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private companies</td>
<td>5 663 005</td>
<td>2 985 177</td>
</tr>
<tr>
<td>State-controlled companies</td>
<td>66 541</td>
<td>41 565</td>
</tr>
<tr>
<td><strong>Amounts due to customers</strong></td>
<td><strong>5 729 546</strong></td>
<td><strong>3 026 742</strong></td>
</tr>
</tbody>
</table>

Analysis of customer accounts by economic sector is as follows:

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and leasing</td>
<td>5 616 330</td>
<td>3 017 003</td>
</tr>
<tr>
<td>Construction</td>
<td>106 813</td>
<td>9 719</td>
</tr>
<tr>
<td>Agriculture and food processing</td>
<td>335</td>
<td>–</td>
</tr>
<tr>
<td>Manufacturing, including heavy machinery</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>6 065</td>
<td>2</td>
</tr>
<tr>
<td><strong>Amounts due to customers</strong></td>
<td><strong>5 729 546</strong></td>
<td><strong>3 026 742</strong></td>
</tr>
</tbody>
</table>

19. **Debt securities issued**

Debt securities issued comprise:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds issued in the domestic market</td>
<td>2 083 556</td>
<td>11 231 625</td>
</tr>
<tr>
<td>Promissory notes</td>
<td>30 023</td>
<td>–</td>
</tr>
<tr>
<td><strong>Debt securities issued</strong></td>
<td><strong>2 113 579</strong></td>
<td><strong>11 231 625</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2016 and 2015, securities issued represent non-convertible bonds and promissory notes.
19. Debt securities issued (continued)

The Group’s bonds issued in the domestic market are presented below:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Date of issue</th>
<th>Maturity date</th>
<th>Nominal value, RUB’000</th>
<th>Contractual coupon rate, % p.a.</th>
<th>Effective coupon rate, % p.a.</th>
<th>2016 Carrying amount, RUB’000</th>
<th>2015 Carrying amount, RUB’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>OB-01</td>
<td>November 28, 2011</td>
<td>March 17, 2022</td>
<td>5 000 000</td>
<td>14.00</td>
<td>14.52</td>
<td>2 083 194</td>
<td>2 081 439</td>
</tr>
<tr>
<td>OB-02</td>
<td>November 28, 2011, June</td>
<td>August 11, 2022</td>
<td>5 000 000</td>
<td>9.75</td>
<td>10.01</td>
<td>362</td>
<td>83 174</td>
</tr>
<tr>
<td>BO-03</td>
<td>7, 2013, June</td>
<td>November 26, 2016</td>
<td>4 000 000</td>
<td>8.25</td>
<td>8.46</td>
<td>--</td>
<td>4 029 778</td>
</tr>
<tr>
<td>BO-04</td>
<td>7, 2013, June</td>
<td>November 26, 2016</td>
<td>5 000 000</td>
<td>8.25</td>
<td>8.46</td>
<td>--</td>
<td>5 037 234</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 083 556</td>
<td>11 231 625</td>
</tr>
</tbody>
</table>

In November 2016 the Group repaid BO-03 bonds with a nominal value of RUB 4 000 000 adjusted for the accumulated coupon yield due to the expiration of the maturity term. Income payable for the respective coupon period amounted to RUB 166 360 thousand. Total income paid was RUB 990 920 thousand. These bonds were issued in June 2013, the contractual coupon rate was 8.25%.

In November 2016 the Group repaid BO-04 bonds with a nominal value of RUB 5 000 000 thousand adjusted for the accumulated coupon yield due to the expiration of the maturity term. Income payable for the respective coupon period amounted to RUB 207 950 thousand. Total income paid was RUB 1 238 650 thousand. These bonds were issued in June 2013, the contractual coupon rate was 8.25%.

As of December 31, 2016, interest bearing promissory notes of RUB 30 023 thousand are denominated in roubles with maturity in April 2018. The interest rate on these bonds was 7%.

20. Subordinated loan

As of December 31, 2016 and December 31, 2015, the subordinated loan was received from State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" in the amount of RUB 9 000 000 thousand with maturity on October 31, 2025.

As of December 31, 2016 and December 31, 2015, the effective interest rate on the subordinated loan was 7.12%.

As of December 31, 2016, the amortised cost of the subordinated loan was RUB 7 954 630 thousand (December 31, 2015: RUB 7 870 136 thousand).
Translation from the Russian original

21. Equity

Movements in shares outstanding, issued and fully paid were as follows:

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Nominal value</th>
<th>Hyperinflation adjustment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>Ordinary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At December 31, 2016 and December 31, 2015</td>
<td>19 240</td>
<td>19 240 000</td>
<td>1 729 227</td>
</tr>
</tbody>
</table>

The share capital of the Bank was contributed by the shareholder in roubles and the shareholder is entitled to dividends and any capital distribution in roubles.

According to the Russian legislation, only accumulated retained earnings reflected in the Bank’s statutory financial statements may be distributed as dividends among the Bank’s shareholders. As of December 31, 2016, the statutory accumulated undistributed and unreserved loss of the Bank amounted to RUB 4 633 247 thousand (unaudited). As of December 31, 2016, the undistributed and unreserved earnings of the Group under IFRS amounted to RUB 4 224 025 thousand. As of December 31, 2015, the undistributed and unreserved earnings of the Bank under RAL amounted to RUB 2 240 600 thousand (RUB 7 955 550 thousand- under IFRS).

Movements in other reserves

Movements in other reserves were as follows:

<table>
<thead>
<tr>
<th>Unrealized gains/(losses) on financial assets available for sale</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2015</td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains on investment financial assets available for sale</td>
<td>6 939</td>
</tr>
<tr>
<td>Realized losses on investment financial assets available for sale and reclassified to the income statement</td>
<td>(218 523)</td>
</tr>
<tr>
<td>Impairment loss on financial assets reclassified to the income statement</td>
<td>(79 492)</td>
</tr>
<tr>
<td>Tax effect of net gains on investment financial assets available for sale</td>
<td>260 000</td>
</tr>
<tr>
<td>At December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>(23 473)</td>
<td>(23 473)</td>
</tr>
</tbody>
</table>

Net unrealized gains on investment financial assets available for sale | (34 323) | (34 323) |
Realized losses on investment financial assets available for sale and reclassified to the income statement | (13 738) | (13 738) |
Tax effect of net gains on investment financial assets available for sale | 9 612 | 9 612 |

At December 31, 2016 | (61 922) | (61 922) |

Nature and purpose of other reserves

Unrealized gains (losses) on financial assets available for sale

This reserve records changes in the fair value of investments available for sale.

As of December 31, 2015, the Group recognized an impairment loss on promissory notes issued by banks and included in the portfolio of securities available for sale in the statement of other comprehensive income in the amount of RUB 260 000 thousand. The loss was written off from comprehensive income and recognized in the income statement.
Translation from the Russian original

22. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The economic reforms conducted by the Government are aimed at retooling the Russian economy, development of high-tech productions, enhancement of labour productivity and competitiveness of the Russian products on the world market. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of the economic, financial and monetary measures undertaken by the Russian Government.

The official US Dollar exchange rate set by the Central Bank of the Russian Federation decreased from RUB 72.8827 as of December 31, 2015 to RUB 60.6569 as of December 31, 2016. In 2016 the Central Bank’s key refinancing rate decreased from 11% to 10%. The remaining uncertainty as to further deterioration in the operating environment affects the future financial position and activities of the Group. Management of the Group believes it is taking all the necessary measures to support the sustainability of the Group in these circumstances.

In September 2016 the international rating agency Standard & Poor’s reaffirmed Russia’s long-term foreign currency sovereign credit rating at BB+, improving the outlook from negative to stable.

In October 2016 the rating agency Fitch reaffirmed Russia’s long-term foreign currency sovereign credit rating at BBB-, improving the outlook from negative to stable.

In February 2017 the rating agency Moody’s reaffirmed Russia’s long-term foreign currency sovereign credit rating at Ba1, improving the outlook from negative to stable.

Legal

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

Taxation

The Group operates in Russia. Some provisions in the current Russian tax, currency and customs legislation are not clear enough and are quite ambiguous, which often results in their varying interpretation (which may apply to past relations), selective and inconsistent application, as well as frequent and often highly unpredictable changes. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation and performing tax reviews. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be accrued by the relevant authorities. Tax audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year during which the tax audit decision was made. Under certain circumstances tax reviews may cover longer periods.

As of December 31, 2016, the Group’s management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.
22. Commitments and contingencies (continued)

Commitments and contingencies

As of December 31, the Group’s commitments and contingencies comprised the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit related commitments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undrawn loan commitments</td>
<td>7 788 440</td>
<td>11 539 868</td>
</tr>
<tr>
<td>Guarantees</td>
<td>15 271 240</td>
<td>2 944 998</td>
</tr>
<tr>
<td></td>
<td><strong>23 059 680</strong></td>
<td><strong>14 484 866</strong></td>
</tr>
<tr>
<td>Operating lease commitments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than 1 year</td>
<td>402 206</td>
<td>532 652</td>
</tr>
<tr>
<td>Later than 1 year and not later than 5 years</td>
<td>1 272 733</td>
<td>2 129 684</td>
</tr>
<tr>
<td>Later than 5 years</td>
<td>-</td>
<td>90 261</td>
</tr>
<tr>
<td></td>
<td><strong>1 674 939</strong></td>
<td><strong>2 752 597</strong></td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24 734 619</td>
<td>17 237 463</td>
</tr>
</tbody>
</table>

23. Personnel expenses, other income and other operating expenses

Other income comprises:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gains less losses from transactions with leased property</td>
<td>126 387</td>
<td>459 758</td>
</tr>
<tr>
<td>Penalties received</td>
<td>372 389</td>
<td>326 446</td>
</tr>
<tr>
<td>Compensation for performing the functions of an agent of the Ministry of Finance</td>
<td>6 780</td>
<td>6 780</td>
</tr>
<tr>
<td>Income from other bank services</td>
<td>3 354</td>
<td>41 420</td>
</tr>
<tr>
<td>Sublease income</td>
<td>187</td>
<td>889</td>
</tr>
<tr>
<td>Income from disposal of non-current assets</td>
<td>-</td>
<td>29 709</td>
</tr>
<tr>
<td>Other</td>
<td>54 832</td>
<td>53 720</td>
</tr>
<tr>
<td>Other income</td>
<td><strong>563 929</strong></td>
<td><strong>918 722</strong></td>
</tr>
</tbody>
</table>

Personnel expenses, other employee benefits and other operating expenses comprised:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and bonuses</td>
<td>910 204</td>
<td>1 018 576</td>
</tr>
<tr>
<td>Social security costs</td>
<td>147 328</td>
<td>203 442</td>
</tr>
<tr>
<td><strong>Personnel expenses</strong></td>
<td><strong>1 057 532</strong></td>
<td><strong>1 222 018</strong></td>
</tr>
<tr>
<td>Other impairment and provisions (Note 13)</td>
<td>1 378 362</td>
<td>743 178</td>
</tr>
<tr>
<td>Occupancy and equipment maintenance</td>
<td>443 824</td>
<td>424 879</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>111 641</td>
<td>207 735</td>
</tr>
<tr>
<td>Depreciation of property and equipment (Note 11)</td>
<td>84 451</td>
<td>81 983</td>
</tr>
<tr>
<td>Fees and expenses related to the mutual investment fund</td>
<td>55 694</td>
<td>73 105</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>47 402</td>
<td>82 846</td>
</tr>
<tr>
<td>Consulting and other services</td>
<td>8 517</td>
<td>19 133</td>
</tr>
<tr>
<td>Advertising</td>
<td>4 159</td>
<td>14 906</td>
</tr>
<tr>
<td>Write-off of receivables under leases</td>
<td>-</td>
<td>3 255</td>
</tr>
<tr>
<td>Insurance</td>
<td>1 456</td>
<td>2 017</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>-</td>
<td>1 928</td>
</tr>
<tr>
<td>Charity</td>
<td>150</td>
<td>1 800</td>
</tr>
<tr>
<td>Prior period expenses</td>
<td>15 792</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>40 045</td>
<td>63 924</td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td><strong>2 191 493</strong></td>
<td><strong>1 720 689</strong></td>
</tr>
</tbody>
</table>
24. Risk management

Introduction

Risk management system is an essential element of the business and is fundamental in securing the financial stability of the Group. The Group regulates risks in continuing process of risk identification, assessment and monitoring by establishing risk limits using control and management tools.

Credit risk, liquidity risk, market risk and operating risk are the major risks the Group is exposed to in its operating activities. Apart from the above risks the Group also considers the strategic, legal, reputational, regulatory, and country risks.

For the purposes of sustainable management of risks arising in the course of the banking activity and in order to meet the changing requirements of the Central Bank and international banking practice the Group has created and continually improves a complex organizational and methodological risk assessment base incorporating a system of methods, regulations and procedures and a system of decision making bodies providing for effective bank risks management.

To improve the risk and capital management system, in December 2016 the Group approved its Risk and Capital Management Strategy that defines the key elements of the risk management system and approaches to its transformation in compliance with the changed external and internal environment.

Risk mitigation

As part of its overall risk management, the Group may use both traditional mechanisms to limit or control risk levels (limiting of transactions, use of collateral for transactions, making sufficient provisions to cover possible losses, and maintaining capital adequacy ratios) and derivative instruments to manage risk situations resulting from movements in interest rates, exchange rates, equity and other assets prices.

Risk management structure

Risk management policy suggests segregation, delegation and differentiation of powers of collegial management bodies and structural subdivisions of the Bank.

Establishment of main strategic directions of risk management and overall control over their implementation are the competence of the Council.

For the purposes of risk management processes, the competence of the Bank’s Management Board includes the approval of:

- documents regulating principles, approaches and procedures of risk regulation;
- limits and other restrictions (broken down by major risk);
- measures to mitigate risks;
- other parameters determined by the Bank’s internal documents and procedures related to risk management.

The Credit Committee and the Asset and Liability Management Committee usually make decisions within the scope of their risk management responsibilities.

The Risk Management Department (RMD) is the key subdivision responsible for implementing and supporting the risk identification, assessment, monitoring and management measures. The effectiveness of the RMD and the overall risk management system is conditional on:

- organizational independence of the Risk Management Department from business units;
- representation of risk management on all of the Bank’s committees responsible for making decisions on transactions that expose the Group to risks, which allows the Group to assess risks objectively and make reasonable decisions on transactions that expose the Group to banking risks;
- use of a systemic approach to the identification, assessment and management of risks when carrying out any transactions that expose the Group to risks.

The Internal Control Function reviews the compliance of the Bank’s internal regulations with the legal requirements and the requirement of supervisory bodies and assesses the level of regulatory risk. The Internal Audit Function verifies the efficiency of the risk management system.
24. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The risk identification and assessment system used by the Group includes:

- development of basic documents for risk analysis and assessment: policies, procedures and methodologies, depending on the type of risk, counterparty category and other factors;
- setting of targets and key indicators for each type of risk;
- application of quantitative measurement methods and qualitative (expert) assessment of the level of risk to determine the amount of any possible decreases in equity or economic (net) value of the Bank;
- assessment of risks assumed, by using stress tests to determine their level under certain scenarios involving changes in the predetermined values of risk factors.

The risk reporting system involves the preparation of regular risk reports for all management levels throughout the Group to ensure that all subdivisions of the Group have access to necessary and up-to-date information about the level of risks assumed by the Group.

Operating reports concerning risk levels are prepared on a weekly basis and provided to the Bank’s management. Monthly risks reports are submitted to the Credit Committee and the ALCO (depending on the type of risk). A comprehensive report on risk levels supported by explanatory notes is submitted for review to the Bank's Management Board and Council on a quarterly basis.

Excessive risk concentrations

Concentrations arise when a significant number of the Group’s counterparties are engaged in similar business activities, when significant amounts of loans are provided to groups of related counterparties or large loans accounting for a significant share in the portfolio are provided to unrelated counterparties, when loans or counterparties are concentrated in one sector (industry concentration) or in one geographic region, or when there are other circumstances which make counterparties vulnerable to the same economic/political factors. In such cases, the ability of these counterparties to meet contractual obligations is similarly affected by changes in economic, political or other conditions. Risk concentration reflects the relative sensitivity of the Group’s results to the changes in conditions affecting a certain industry or geographic region.

In order to avoid excessive concentrations of risks, the Group’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The main way to prevent excessive risk concentrations that threaten the sustainability of the Group’s business is to use the system of limits, restrictions and thresholds to manage the established risk concentrations.

Credit risk

Credit risk is the risk that the Group will incur a loss because its debtor fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full.

The Group’s management of credit risk is mainly aimed at improving and maintaining the quality of the Bank’s loan portfolio through mitigating the risks of its creation and servicing.

In order to achieve the above objective of managing credit risk, the Group designed a credit risk management system, which includes the following approaches and stages:

- quantitative and qualitative assessment of the credit risk;
- monitoring of the credit risk;
- regulation and control over the level of the credit risk (diversification, limitation, provisioning).
24. Risk management (continued)

Credit risk (continued)

The Group’s methodology used to assess loan portfolio risks includes:

- quantitative assessment of the credit risk, i.e. the Group’s valuation of borrowers’ creditworthiness (ability to repay the loans), represented by the amount of provisions for potential losses on loans and similar debt;
- qualitative (expert) assessment of the borrower, including the assessment of its business reputation (as well as the owners’ reputation), nature of business, management quality, company’s credibility, credit history and other market and non-market factors affecting the ability (intention) of the counterparty to meet its obligations to the Group;
- within qualitative analysis and total portfolio assessment the Bank identifies if the borrowers are related parties and takes into account the level of credit risk concentration.

Quantitative and qualitative assessment of the Group’s credit risk is performed in accordance with internal regulations, and regulatory requirement of the Central Bank.

The Group’s methodology for credit risk assessment performed in accordance with the requirements of the Bank of Russia includes the estimation of risk arising from each lending operation based on the financial position of the borrower and the quality of the debt servicing.

The Group’s classification of loans is based on internal rating models used to assess the financial position of the borrower in accordance with the internal regulation approved by the Management Board of the Bank.

In order to avoid higher credit risk, the Group regularly monitors credit risk both for single loans in particular and for the loan portfolio as a whole.

The Group sets up the following procedure for the involvement of authorized bodies and internal departments in credit risk management.

The credit risk management procedures performed by the Bank’s Management Board include:

- the approval of internal regulations for credit risk management methodology and procedures;
- the approval of credit risk limits for individual borrowers (including related borrowers), correspondent banks and other counterparties as well as limits for other investees;
- changing terms, types, timeframes and amounts of lending resulting from the level of credit risk;
- setting up requirements to the types of guaranteeing the repayment of the loan and fulfillment of other liabilities;
- implementation of decisions related to the improvement of the loan portfolio quality.

The Internal Control Function controls the compliance of the Bank’s internal regulations with the legal requirements and the requirement of supervisory bodies; the Internal Audit Function verifies the efficiency of the risk management system, including credit risk management system.

The Risk Management Department (RMD) is the main subdivision responsible for the implementation of credit risk management policies and principles.

The RDM is a standalone structural subdivision, ensuring the independence of the risk control process. The RDM’s responsibilities include execution of documents on credit risk management, introduction and implementation of procedures to identify, analyse, assess, limit and monitor credit risks, assessment of new products and individual transactions, issuance of recommendations and proposals concerning limits to the scope and structure of credit risks assumed by the Group and preparation of profile reports. The RDM provides reports concerning the level of credit risk for the Credit Committee’s consideration on a regular basis – at least once a month. Management of the Bank receives reports concerning the level of credit risk included in the consolidated risk report on a regular basis, i.e. at least once a quarter and in case of deterioration of current or projected level of credit risk – immediately.
24. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>Maximum exposure 2016</th>
<th>Maximum exposure 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (excluding cash on hand)</td>
<td>5</td>
<td>11 770 875</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>6</td>
<td>884 681</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>6</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>7</td>
<td>70 630 225</td>
</tr>
<tr>
<td>Financial assets related to derivative financial instruments</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>9</td>
<td>15 063 507</td>
</tr>
<tr>
<td>Debt investment financial assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- available for sale</td>
<td>10</td>
<td>9 141 308</td>
</tr>
<tr>
<td>Other assets</td>
<td>14</td>
<td>2 156 620</td>
</tr>
<tr>
<td>Financial commitments and contingencies</td>
<td>22</td>
<td>23 059 680</td>
</tr>
<tr>
<td>Total credit risk exposure</td>
<td></td>
<td>138 294 856</td>
</tr>
</tbody>
</table>

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

According to their credit quality, financial assets classified as other assets are current and unimpaired as of December 31, 2016 and December 31, 2015, except for finance lease receivables which are individually impaired (Note 13).

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Notes 7 and 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings.

It is the Group’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service coverage are included in the standard grade. Substandard grade comprises loans below standard rating but not individually impaired. For debt securities, high rating is equivalent to Baa3 rating and above, assigned by an international or national rating agency, standard – below Baa3 but above B3, sub-standard – below B3.
Translation from the Russian original

24. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset before loan impairment provision for the loan-related lines of the consolidated statement of financial position, based on the Bank’s credit rating system.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td></td>
<td>7</td>
<td>30 461 003</td>
<td>34 312 435</td>
<td>2 937 567</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers</td>
<td></td>
<td>9</td>
<td>2 802 942</td>
<td>6 246 608</td>
<td>359 728</td>
<td>–</td>
</tr>
<tr>
<td>Small business lending</td>
<td>Project financing</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Corporate lending and finance lease receivables</td>
<td></td>
<td>–</td>
<td>5 118 280</td>
<td>526 944</td>
<td>311 816</td>
<td>930 338</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 802 942</td>
<td>11 364 888</td>
<td>886 672</td>
<td>311 816</td>
<td>3 283 173</td>
</tr>
<tr>
<td>Investment financial assets</td>
<td>Available for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>Others debt securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Eurobonds issued by Russian entities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Promissory notes</td>
<td>Held to maturity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 338 084</td>
<td>3 148 295</td>
<td>1 654 929</td>
<td>–</td>
<td>333 669</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>37 602 029</td>
<td>48 825 618</td>
<td>5 479 168</td>
<td>311 816</td>
<td>17 017 714</td>
</tr>
</tbody>
</table>
Translation from the Russian original

24. Risk management (continued)

Credit risk (continued)

As of December 31, 2016, past due but unimpaired loans include less than 30 days overdue loans provided under the corporate lending program in the amount of RUB 311,816 thousand.

| Notes | Neither past due nor impaired | | | | | |
|---|---|---|---|---|---|
| | Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions | | | | | |
| | 7 | 65,641,598 | 22,311,214 | 151,152 | – | 5,186,585 | 93,290,549 |
| | Loans to customers | | | | | |
| | 9 | 2,263,003 | 5,491,811 | 979,669 | 332,284 | 1,320,726 | 10,387,497 |
| | Project financing | – | – | – | – | 211,893 | 211,893 |
| | Corporate lending and finance lease receivables | – | 262,765 | 186,885 | – | 745,384 | 1,195,034 |
| | 2,263,003 | 5,754,576 | 1,166,554 | 332,284 | 2,278,007 | 11,794,424 |
| | Investment financial assets | | | | | |
| | 10 | 4,059,338 | 195,468 | 574,976 | – | 260,000 | 5,089,782 |
| | Available for sale | | | | | |
| | - Promissory notes | – | 1,663,803 | 2,013,080 | – | – | 3,676,883 |
| | - Corporate bonds | 2,263,003 | 5,491,811 | 979,669 | 332,284 | 1,320,726 | 10,387,497 |
| | - Other debt securities | 50,443 | – | – | – | – | 50,443 |
| | Held to maturity | – | – | – | – | 73,689 | 73,689 |
| | 4,109,781 | 1,859,271 | 2,588,056 | – | 333,689 | 8,890,797 |
| | Total | 72,014,382 | 29,925,061 | 3,905,762 | 332,284 | 7,798,281 | 113,975,770 |

As of December 31, 2015, past due but unimpaired loans include less than 30 days overdue loans provided under the program of extending loans to small and medium enterprises in the amount of RUB 332,284 thousand.

Carrying amount of financial assets whose terms have been renegotiated, per class of financial assets

The table below shows the carrying amount for financial assets renegotiated by class.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate lending</td>
<td>631,921</td>
<td>630,253</td>
</tr>
<tr>
<td>Project financing</td>
<td>25,183</td>
<td>25,183</td>
</tr>
<tr>
<td>Small business lending</td>
<td>401,720</td>
<td>636,664</td>
</tr>
<tr>
<td>Total</td>
<td>1,033,641</td>
<td>1,292,100</td>
</tr>
</tbody>
</table>

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.
24. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or account receivable on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s financial position based on the figures in its business plan, the counterparty’s ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio reviewed separately.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of impairment in an individual assessment. The amount of impairment is estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed for impairment, and provision is made in a similar manner as for loans.

The geographical concentration of the Group’s monetary assets and liabilities, net of provision for impairment, is set out below:

<table>
<thead>
<tr>
<th>Assets</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Russia</td>
<td>OECD</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>11 731 149</td>
<td>39 727</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>884 681</td>
<td>–</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>5 587 960</td>
<td>–</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises</td>
<td>81 111 857</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>18 649 491</td>
<td>–</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Investment financial assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- available for sale</td>
<td>9 277 448</td>
<td>123 860</td>
</tr>
<tr>
<td>- held to maturity</td>
<td>73 689</td>
<td>–</td>
</tr>
<tr>
<td>Other assets</td>
<td>3 146 708</td>
<td>7 377</td>
</tr>
<tr>
<td></td>
<td>130 462 983</td>
<td>170 964</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due to the Central Bank and Government</td>
<td>38 908 757</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>36 618 532</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>5 729 546</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>2 113 579</td>
<td>–</td>
</tr>
<tr>
<td>Other liabilities and provisions</td>
<td>1 984 014</td>
<td>–</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>7 954 630</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>93 009 058</td>
<td>–</td>
</tr>
<tr>
<td>Net balance sheet position</td>
<td>37 153 925</td>
<td>170 964</td>
</tr>
</tbody>
</table>
24. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk of loss resulting from the inability of the Group to meet its obligations.

When managing liquidity risk, the Group’s management bodies and subdivisions perform the following functions:

- the Bank’s Council approves the Bank’s development strategy and business plans, and the overall risk management strategy (Policy), including the liquidity management policy;
- based on the business plan approved, the Bank’s Management Board sets thresholds for the volume and structure of the Bank’s assets and liabilities, approves methodologies, procedures and other internal regulatory documents for the analysis and assessment of the liquidity status and management of the Bank’s liquidity, including a Contingency Action Plan, as well as informs the Council of the liquidity status by providing a consolidated risk report;
- the Assets and Liabilities Management Committee (ALCO) develops internal documents for the management of liquidity and liquidity risk, sets risk thresholds and controls compliance, and coordinates the liquidity management activities of other subdivisions;
- the Risk Management Department (RMD) develops and updates the liquidity risk management methodology, assesses, analyses and controls the liquidity status by building the maturity structure of the Bank’s assets and liabilities and preparing gap reports, develops and implements internal reporting forms and databases for the analysis and assessment of liquidity risk, monitors the compliance with the maximum surplus (deficit) liquidity ratios and provides reports on the analysis of liquidity risk to the ALCO on a monthly basis;
- the Finance and Economic Department (FED) forecasts short-term liquidity by preparing a cash flow forecast for the Bank in accordance with the short-term liquidity management procedure approved by the Bank, and projects medium-term and long-term liquidity positions;
- the Treasury manages instant liquidity by maintaining the Bank’s payment position and performs operations, within the scope of its authority, to maintain instant and current liquidity, to raise funds and place temporarily available funds and to build bank portfolios of liquid assets;
- the Internal Control Function monitors the compliance of the Bank’s draft internal regulations with the legal requirements and the requirement of supervisory bodies; the Internal Audit Function verifies the efficiency of the risk management system, including liquidity risk management system.
- other subdivisions of the Bank are also involved in liquidity risk management within the scope of their responsibilities and authority.

In order to manage the liquidity risk the Group developed methodological framework including Policy for management and control over liquidity, developed regulatory documents, which establish the procedures for assessment of the liquidity risk using Gap analysis and liquidity stress testing, and other internal regulatory documents for liquidity risk management. These documents are aimed at creating and improving the banking liquidity management, which should ensure optimal balance between liquidity and profitability.

In order to manage liquidity, the Group makes daily forecasts of its payment position and Bank liquidity ratios (N2, N3, N4) and controls compliance with other requirements established by the Bank of Russia. The Group also regularly analyses the level of liquidity through term structuring of receivables and liabilities, stress-testing based on three development scenarios: “basic”, “bank crisis”, “market crisis”. The Group sets maximum cumulative liquidity surplus/deficit ratios and then sets limits for the operations performed, using the above ratios, and regularly controls compliance with maximal levels established.
24. Risk management (continued)

Liquidity risk and funding management (continued)

The Group assesses and analyses its liquidity (instant, current and long-term) through daily calculation of liquidity ratios (N2, N3, N4), established by the Bank of Russia, control over their compliance and separate analysis of data used in calculation of ratios. The Group summarizes and retains the history of ratios and data used for their calculation, which is the basis for further analysis. Changes in actual level of liquidity respective to the above mandatory ratios are analysed quarterly. As a result of comparison of ratios and actual data used in their calculation, trends of changes in liquidity are identified in the analysed period. Based on the results of analysis, the Group makes operating decisions, which determine changes in items which affect data used to calculate liquidity ratios.

In order to analyse and assess medium-term and long-term liquidity, the Group uses asset and liability maturity gap analysis. While setting the term structure of assets and liabilities, the Group calculates absolute surplus (deficit) liquidity, including cumulative, and surplus (deficit) liquidity ratios, which helps to identify if the Group liabilities for each maturity date are covered with receivables maturing at the respective date. In order to ensure control over liquidity the Group sets maximum cumulative surplus (deficit) liquidity ratios.

The liquidity management by means of stress testing (scenario management) is carried out by the RDM with the assistance of the ALCO, the FED and, if necessary, other subdivisions of the Bank. These divisions analyse the liquidity under each of the three scenarios: “basic”, “bank crisis” and “market crisis”. The liquidity analysis by means of scenario management is performed quarterly on the basis of forecast business plan and annually on the basis of the approved business-plan.

As of the 1st day of the forecast quarter or each quarter of the forecast year, the analytical ratios are calculated on the basis of the data on the maturity of financial assets and financial liabilities of the Bank. These ratios include:

- financial assets with high liquidity divided by attracted funds (percentage ratio);
- quick liquidity ratio (the Bank’s financial assets with high liquidity divided by the Bank’s liabilities for demand accounts and due within 1 day);
- current liquidity ratio (the Bank’s financial assets with high liquidity divided by financial liabilities for demand accounts and due within 30 days);
- the maximum credit exposure to major lenders (the Bank’s liabilities on loans exceeding 10% of the attracted funds divided by the financial assets with high liquidity, percentage ratio).

The summarized liquidity ratio is calculated based on above mentioned ratios weighted appropriately.

On the basis of summarized liquidity ratio the Bank estimates its liquidity and compares it to the set amounts.

If a “satisfactory” or “bad” level of estimated liquidity on the “basic” scenario or “bad” level on “bank crisis” or “market crisis” is determined, the RMD investigates the possible reasons and determines the measures to avoid liquidity crisis and reports these measures to the ALCO.

Measures to recover the current liquidity include suspension of active transactions, additional fund-raising, disposal of other liquid assets, initiating negotiations to early repay loans, etc.

The measures to improve mid-term liquidity include attracting funds for corresponding periods, cancelling long-payback investment projects, etc.
Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the Central Bank. As of December 31, 2016 and 2015 these ratios were as follows:

<table>
<thead>
<tr>
<th>Ratio Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>N2 “Instant Liquidity Ratio”</td>
<td>17.1</td>
<td>53.0</td>
</tr>
<tr>
<td>N3 “Current Liquidity Ratio”</td>
<td>153.5</td>
<td>254.3</td>
</tr>
<tr>
<td>N4 “Long-Term Liquidity Ratio”</td>
<td>87.2</td>
<td>93.9</td>
</tr>
</tbody>
</table>

Analysis of financial liabilities by remaining contractual maturities

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

<table>
<thead>
<tr>
<th>Financial liabilities</th>
<th>Less than 3 months</th>
<th>3 to 12 months</th>
<th>1 to 5 years</th>
<th>Over 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due to the Central Bank</td>
<td>780 966</td>
<td>2 096 535</td>
<td>48 035 190</td>
<td>–</td>
<td>50 912 691</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>16 366 939</td>
<td>2 347 917</td>
<td>7 505 137</td>
<td>41 250 000</td>
<td>67 469 993</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>5 685 512</td>
<td>45 974</td>
<td>–</td>
<td>–</td>
<td>5 731 486</td>
</tr>
<tr>
<td>Securities issued</td>
<td>140 262</td>
<td>172 891</td>
<td>1 122 096</td>
<td>2 149 633</td>
<td>3 584 822</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>247 595</td>
<td>514 301</td>
<td>10 786</td>
<td>–</td>
<td>772 682</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>119 747</td>
<td>347 797</td>
<td>1 861 286</td>
<td>10 783 573</td>
<td>13 112 403</td>
</tr>
<tr>
<td>Total undiscounted financial liabilities</td>
<td>23 341 021</td>
<td>5 525 415</td>
<td>58 534 495</td>
<td>54 183 206</td>
<td>141 584 137</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
<th>Less than 3 months</th>
<th>3 to 12 months</th>
<th>1 to 5 years</th>
<th>Over 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due to the Central Bank</td>
<td>717 392</td>
<td>1 910 761</td>
<td>42 575 826</td>
<td>–</td>
<td>45 203 979</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>1 784 091</td>
<td>16 885 838</td>
<td>10 674 273</td>
<td>43 125 000</td>
<td>72 469 202</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>3 026 742</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3 026 742</td>
</tr>
<tr>
<td>Securities issued</td>
<td>144 251</td>
<td>9 888 786</td>
<td>1 154 012</td>
<td>2 526 115</td>
<td>13 713 164</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>202 757</td>
<td>388 871</td>
<td>25 910</td>
<td>55 682</td>
<td>673 220</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>118 480</td>
<td>350 345</td>
<td>1 861 286</td>
<td>11 248 576</td>
<td>13 578 687</td>
</tr>
<tr>
<td>Total undiscounted financial liabilities</td>
<td>5 993 713</td>
<td>29 424 601</td>
<td>56 291 307</td>
<td>56 955 373</td>
<td>148 664 994</td>
</tr>
</tbody>
</table>
Risk management (continued)

Liquidity risk and funding management (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Less than 3 months</th>
<th>3 to 12 months</th>
<th>1 to 5 years</th>
<th>Later than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4,962,980</td>
<td>3,973,760</td>
<td>9,678,019</td>
<td>4,444,921</td>
<td>23,059,680</td>
</tr>
<tr>
<td>2015</td>
<td>11,539,868</td>
<td>2,944,998</td>
<td>–</td>
<td>–</td>
<td>14,484,866</td>
</tr>
</tbody>
</table>

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

The Group has received significant loans from State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” and the Bank of Russia (Notes 15 and 16). Any significant withdrawal of these funds may have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future, and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

Market risk

Market risk is the risk that the Group may incur financial losses due to adverse change in the market value of financial instruments, interest rates and foreign exchange rates. To manage its market risk exposure, the Group designed a Market Risk Management Policy.

Market risk includes:

- **Interest rate risk** – the risk of losses incurred due to unfavourable changes in interest rates on the financial assets, liabilities and off-balance sheet items of the Group.

- **Currency risk** – the risk of losses incurred due to unfavourable impact of foreign exchange rates on open currency positions in foreign currencies.

- **Stock exchange risk** – the risk of losses incurred due to unfavourable changes in market quotes on financial instruments in the trading portfolio and derivative financial instruments under the influence of either the issuers of respective financial assets or general fluctuations of market prices on respective assets.

Market risk is managed by the following management bodies and subdivisions of the Group:

- the Bank’s Council approves the Bank’s development strategy and business plans, and the overall risk management strategy (Policy);
- the Bank’s Management Board approves internal regulatory documents for the analysis, assessment and control of market risk, approves limits for counterparties/securities issuers, reviews reports and informs the Council of the market risk level;
- the Assets and Liabilities Management Committee (ALCO) sets market risk management guidelines, manages market risk by setting limits and thresholds for market risk level and controls compliance, coordinates the market risk management activities of various subdivisions, and informs the Bank’s Management Board of the market risk level;
- the Risk Management Department (RMD) develops and updates the market risk management methodology, analyses and assesses market risk levels, provides reports on the analysis of market risks to the ALCO on a monthly basis;
- the Finance and Economic Department (FED) coordinates how various subdivisions interact with each other in the course of development and setting of thresholds for lending operations, including transactions with financial instruments, calculates and builds the structure of thresholds for lending operations, and controls compliance on a day-to-day basis;
24. Risk management (continued)

Market risk (continued)

• the Treasury performs operations in the financial markets, within the limits approved, to maximize (at a predetermined risk level) the Bank’s returns on investments, based on the analysis and monitoring of financial market conditions;

• the Internal Control Function controls the compliance of the Bank’s draft internal regulations with the legal requirements and the requirement of supervisory bodies; the Internal Audit Function verifies the efficiency of the risk management system, including market risk management system;

• other subdivisions of the Bank are also involved in market risk management within the scope of their responsibilities and authority.

Interest rate risk

The procedure of managing, evaluating and monitoring interest rate risk of the Group is regulated by the Market Risk Management Policy and the Interest Rate Policy.

The Group evaluates the level of interest rate risk in accordance with the requirements of the Bank of Russia and uses its own methodology for the purposes of analysis based on the gap method (GAP analysis) and the duration method.

As a result of GAP analysis, assets and liabilities that are sensitive to interest rate changes are broken down by maturities and possible changes in net interest income based on stress testing using the scenario of parallel shifts in interest rate curve.

Change in equity and its share in total Group’s equity is calculated as a result of evaluation of interest rate risk by means of the duration method. Based on the results of analysis and depending on the amount of possible decreases in equity, the Group develops, if necessary, a list of measures to regulate interest rate risk in accordance with the Group’s risk management strategy.

Monitoring the level of interest rate risk is implemented on different management levels in accordance with responsibilities of relative departments of the Group. Within the framework of control system limits on interest rate risk are set, reports on the level of interest rate risk and maintenance of set thresholds are prepared and submitted.

In the framework of the system of limits the following limits and thresholds for level of interest rate risk are set:

• accumulated gap ratio for the interest rate structure of the balance sheet (the difference between the amount of assets (claims) and liabilities (obligations) that are sensitive to changes in interest rates) in the time period within one year (in %);

• threshold for changes in the Bank’s equity calculated using the duration method (not more than 20% of equity);

• limits on the portfolio of financial instruments are set in order to comply with the threshold on interest rate risk.

Limits and thresholds are set and reviewed by the ALCO on a regular basis depending on the market conditions and the Group’s policy.

The RMD monitors the level of interest rate risk and provides relevant reports for the ALCO consideration on a regular basis – no less than once a month. Management of the Bank receives reports from the ALCO on a regular basis, i.e. not less than once a quarter and in case of deterioration of current or forecasted level of interest rate risk – immediately.
24. Risk management (continued)

Market risk (continued)

The sensitivity of the financial result in the income statement is the effect of the assumed changes in market interest rates on the net interest income for one year, based on the floating rate non–trading financial assets and financial liabilities, and on changes in fair value of the fixed rate financial assets at fair value through profit or loss held as of December 31, 2016 and 2015. The sensitivity of equity is calculated by revaluing fixed rate financial assets available for sale at December 31, 2016 and 2015 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

### RUB

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2016</th>
<th>Sensitivity of equity 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.50%</td>
<td>(117 578)</td>
<td>(170 421)</td>
</tr>
<tr>
<td>Decrease -0.50%</td>
<td>117 578</td>
<td>170 421</td>
</tr>
</tbody>
</table>

### USD (YTM 5Y US Treasuries)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2016</th>
<th>Sensitivity of equity 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.20%</td>
<td></td>
<td>(22)</td>
</tr>
<tr>
<td>Decrease -0.10%</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

### EUR (YTM 5Y German Treasuries)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2016</th>
<th>Sensitivity of equity 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.10%</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>Decrease -0.20%</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

### RUB

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 1.00%</td>
<td>(27 157)</td>
<td>(35 652)</td>
</tr>
<tr>
<td>Decrease -2.00%</td>
<td>54 313</td>
<td>71 304</td>
</tr>
</tbody>
</table>

### USD (LIBOR)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.15%</td>
<td>(22 832)</td>
<td>(297)</td>
</tr>
<tr>
<td>Decrease -0.05%</td>
<td>7 611</td>
<td>99</td>
</tr>
</tbody>
</table>

### EUR (LIBOR)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease -0.10%</td>
<td>797</td>
<td></td>
</tr>
</tbody>
</table>

### USD (YTM 5Y US Treasuries)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.20%</td>
<td>(1 816)</td>
<td></td>
</tr>
<tr>
<td>Decrease -0.10%</td>
<td>908</td>
<td></td>
</tr>
</tbody>
</table>

### EUR (YTM 5Y German Treasuries)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 0.10%</td>
<td>(716)</td>
<td></td>
</tr>
<tr>
<td>Decrease -0.20%</td>
<td>1 431</td>
<td></td>
</tr>
</tbody>
</table>

### RUB (MosPrime)

<table>
<thead>
<tr>
<th>Change in basic points</th>
<th>Sensitivity of profit or loss 2015</th>
<th>Sensitivity of equity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase 1.00%</td>
<td>18 108</td>
<td></td>
</tr>
<tr>
<td>Decrease -3.00%</td>
<td>(54 324)</td>
<td></td>
</tr>
</tbody>
</table>
24. Risk management (continued)

Market risk (continued)

Currency risk

The Group evaluates the level of currency risk in accordance with requirements of the Bank of Russia, and using an internal methodology for the assessment of currency risk by means of VAR-analysis.

In accordance with the Central Bank’s requirements, the ARD calculates open currency positions on a daily basis by certain currencies and precious metals, as well as the balancing position. The Bank observes the following thresholds (limits) on open currency positions established by the Central Bank:

- the sum of all long (short) open currency positions by each foreign currency and precious metal at each day should not exceed 20% of the total Bank’s equity;
- any long (short) open currency position in certain foreign currencies and precious metals, as well as the balancing position in RUB at each day should not exceed 10% of the total Bank’s equity.

VaR-analysis estimates the maximum amount of expected currency risk losses assuming current market trends. The Group applies VaR-analysis of currency risk using historical simulation method on a daily basis in accordance with international practice and requirements of Basel Committee.

In accordance with the Group’s Market Risk Management Policy, the maximum expected losses calculated using VaR-analysis shall not exceed 5% of the Group’s equity.

Based on the analysis results, the Group renders a decision on the necessity of additional provisioning, and changing the structure of the statement of financial position.

For the purposes of currency risk management the Group monitors changes in risk factors:

- alterations in rates of currencies;
- changes in currency positions.

The Group’s monitoring system on OCP includes establishment and control of the following indicators:

- a set of paired currencies with which implementation of operations is authorized;
- a list of operation types with particular currencies (current, term, deliveries, indexes, etc.);
- internal limits on OCP.

Limits are established by the ALCO on a monthly basis as restriction of a percentage of the size of the open currency positions to current size of the Group’s equity based on calculations presented by the ARD and the RMD.
Translation from the Russian original

24. Risk management (continued)

Market risk (continued)

The tables below indicate the currencies to which the Group had significant exposure as of December 31, 2016 and 2015 on its monetary assets and liabilities, and its forecast cash flows. The analysis illustrates the effect of a reasonably possible change in the currency rates against RUB, with all other variables held constant, on the income statement (due to the fair value of currency-sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the income statement or in equity, while a positive amount reflects a net potential increase.

<table>
<thead>
<tr>
<th>Currency</th>
<th>Change in currency rate in % 2016</th>
<th>Effect on income before tax 2016</th>
<th>Change in currency rate in % 2015</th>
<th>Effect on income before tax 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>Increase 5.16%</td>
<td>(19 635)</td>
<td>19.74%</td>
<td>(191 904)</td>
</tr>
<tr>
<td></td>
<td>Decrease -5.16%</td>
<td>19 635</td>
<td>-19.74%</td>
<td>191 904</td>
</tr>
<tr>
<td>EUR</td>
<td>Increase 8.78%</td>
<td>(768)</td>
<td>20.21%</td>
<td>(333)</td>
</tr>
<tr>
<td></td>
<td>Decrease -8.78%</td>
<td>768</td>
<td>-20.21%</td>
<td>333</td>
</tr>
<tr>
<td>CNY</td>
<td>Increase -</td>
<td></td>
<td>19.60%</td>
<td>442</td>
</tr>
<tr>
<td></td>
<td>Decrease -</td>
<td></td>
<td>-19.60%</td>
<td>(442)</td>
</tr>
</tbody>
</table>

Other risks

Operational risk is the risk of direct or indirect losses as a result of lacks or errors of internal processes, in actions of employees and other individuals, information systems deficiencies or due to external events. The Group has a clear organizational structure in which duties and the rights of each employee are segregated and controls over operations and documentation are carried out. The Group strives for maximum automation and control over the automated processes.

The Internal Control Function controls draft internal regulations to ensure compliance with laws and requirements of supervisory bodies. The Internal Audit Function verifies the efficiency of the risk management system, including operational risk management system.

The Group estimates and monitors the level of operational risk based on the Operational Risk Management Policy which provides for a comprehensive system to review, assess and control operational risk.

The Group applies different approaches to overall operational risk assessment: statistical approach (on the basis of data on identified factors of operational risk), basic indicator approach (in accordance with the requirements of the Central Bank).

In order to avoid higher operational risk, the Group regularly collects data on identified factors of operational risk, monitors changes in identified risk factors, and controls the risk level using a system of indicators (employee turnover, equipment failures, etc.). The Group sets limits for each operational risk indicator (limiting values for number of operational risk incidence for each indicator and amounts of potential quarterly loss). The limits are approved by the Bank’s Management Board. The RMD shall on a regular basis report to the Bank’s Management Board on compliance with the limits set for operational risk indicators.

Risk related to the Group’s business reputation (reputation risk) represents a risk of loss arising from deterioration of the public opinion related to the Group’s financial stability, quality of its services and nature of its business in general resulting in loss of customers (counterparties).
24. Risk management (continued)

Other risks (continued)

To mitigate reputation risk, the Group, operating in compliance with the Reputation Risk Management Policy and based on the principles ensuring transparency of transactions and open relationship with counterparties and the economic community in general, carries out a reasonable marketing policy and sets up its internal control system in a way that prevents the use of the Group’s services for performing illegal transactions.

When carrying out its activities, the Group also assesses the level of strategic risk in accordance with the Strategic Risk Management Policy.

To manage strategic risk in making strategic decisions, the Group tries to take into account both all its opportunities in the areas where it has a competitive advantage over competitors and all the possible threats that may negatively affect the Group’s sustainability both in connection with internal factors (for example, in connection with unreasonable selection of business areas to be developed in the future and, as a result, lack of the necessary financial, material and technical, human and other resources) and changes in the external environment, i.e. changes in macroeconomic conditions in the country and in the world, changes in market conditions caused by economic or political events, changes in the government’s policy and/or economic course (i.e. changes in government priorities), changes in legislation and, as a result, changes in the legal environment in a particular business area, banking sector or economy as a whole.

The Group manages legal risks in accordance with the Legal Risk Management Policy by reviewing all the documents (including internal regulations, rules and procedures, contracts, orders and other documents) to check whether they comply with applicable legislation and are in line with generally accepted business practices and interests of the Group. The results of such analysis are presented in the form of special reports and memos, and the above documents are signed by the legal department and are then submitted to the Group’s authorized persons for approval.

The Group manages country risk in accordance with the Country Risk Management Policy by computing and monitoring country risk limits.

The special attention in the system of risk management is paid to compliance risk management.

The following functions and employees of the Group manage its compliance risk on a permanent basis: Internal Control Function (compliance function), Financial Monitoring Function, Controller of the professional securities market participant.

In addition, the Methodology Department participates in the compliance risk management.

The Internal Control Function performs the following activities:

• controls compliance of the Bank’s internal documentation with laws, regulations and standards for self-regulating organizations;
• ensures compliance with the Russian laws (regarding banks, securities market, anti-money laundering and counter-terrorism financing activity, taxes and other), and other requirements of supervisory and regulatory bodies, internal documents of a credit institution and established methodologies, programs, rules, orders and procedures aimed at evaluation of quality and compliance of the established system with the requirements of the Russian legislation and other regulations.

The Methodology Department ensures development and approval of the Bank’s internal regulatory documents as appropriate for changes in the Russian legislation and requirements of supervisory bodies.
Translation from the Russian original

25. Fair value measurement

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

<table>
<thead>
<tr>
<th>Assets measured at fair value</th>
<th>Fair value measurement as of December 31, 2016 using</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quoted prices in active markets (Level 1)</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td></td>
</tr>
<tr>
<td>- Russian Federal bonds (OFZ)</td>
<td>209 514</td>
</tr>
<tr>
<td>- Corporate bonds</td>
<td>411 704</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>–</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, at initial recognition</td>
<td>–</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td></td>
</tr>
<tr>
<td>- Corporate bonds</td>
<td>3 808 584</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>–</td>
</tr>
<tr>
<td>- Eurobonds issued by Russian entities</td>
<td>–</td>
</tr>
<tr>
<td>- Promissory notes</td>
<td>–</td>
</tr>
<tr>
<td>- Contribution to other companies’ share capital</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10 017 762</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets for which fair values are disclosed</th>
<th>Fair value measurement as of December 31, 2016 using</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quoted prices in active markets (Level 1)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>–</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>–</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>–</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities for which fair values are disclosed</th>
<th>Fair value measurement as of December 31, 2016 using</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quoted prices in active markets (Level 1)</td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>–</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>–</strong></td>
</tr>
</tbody>
</table>
## Fair value measurement (continued)

### Fair value hierarchy (continued)

<table>
<thead>
<tr>
<th>Fair value measurement as of December 31, 2015 using</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted prices in active markets (Level 1)</td>
</tr>
<tr>
<td>------------------------------------------------</td>
</tr>
<tr>
<td><strong>Assets measured at fair value</strong></td>
</tr>
<tr>
<td>Derivative financial assets</td>
</tr>
<tr>
<td>- Foreign currency forward and swaps</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
</tr>
<tr>
<td>- Corporate bonds</td>
</tr>
<tr>
<td>- Russian Federal bonds (OFZ)</td>
</tr>
<tr>
<td>- Other debt securities</td>
</tr>
<tr>
<td>- Eurobonds</td>
</tr>
<tr>
<td>Financial assets designated at fair value through profit or loss, at initial recognition</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
</tr>
<tr>
<td>- Corporate bonds</td>
</tr>
<tr>
<td>- Other debt securities</td>
</tr>
<tr>
<td>- Promissory notes</td>
</tr>
<tr>
<td>- Contribution to other companies’ share capital</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Assets for which fair values are disclosed</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
</tr>
<tr>
<td>Loans to customers</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

### Liabilities for which fair values are disclosed

<table>
<thead>
<tr>
<th>Fair value measurement as of December 31, 2015 using</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted prices in active markets (Level 1)</td>
</tr>
<tr>
<td>------------------------------------------------</td>
</tr>
<tr>
<td><strong>Liabilities for which fair values are disclosed</strong></td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
</tr>
<tr>
<td>Amounts due to customers</td>
</tr>
<tr>
<td>Debt securities issued</td>
</tr>
<tr>
<td>Subordinated loan</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
Translation from the Russian original

25. Fair value measurement (continued)

Fair value hierarchy (continued)

Financial assets categorized within Level 2 of the fair value hierarchy comprise debt securities and derivative financial instruments not traded in an active market. The fair value of such financial assets was determined using the techniques for which all inputs that have a significant effect on the recorded fair value are observable in an active market. The following describes the assumptions used to determine fair values of financial instruments.

Derivatives

Derivative financial instruments valued using a valuation technique with market observable inputs are interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through profit or loss and investment financial assets available for sale

Financial assets at fair value through profit or loss and investment financial assets available for sale that are measured using valuation techniques or valuation models, such as discounted cash flow models, consist of unquoted debt securities. These financial assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group’s financial instruments broken down by class, which are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>11 770 876</td>
<td>11 770 876</td>
<td>–</td>
<td>4 916 178</td>
<td>4 916 178</td>
<td>–</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>138 238</td>
<td>138 238</td>
<td>–</td>
<td>101 347</td>
<td>101 347</td>
<td>–</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises</td>
<td>70 630 225</td>
<td>72 189 523</td>
<td>1 559 298</td>
<td>87 281 384</td>
<td>78 836 612</td>
<td>(8 444 772)</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>15 063 507</td>
<td>15 304 771</td>
<td>241 264</td>
<td>9 407 173</td>
<td>9 108 892</td>
<td>(300 281)</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to the Central Bank</td>
<td>38 908 757</td>
<td>38 908 757</td>
<td>–</td>
<td>36 085 264</td>
<td>36 085 264</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to credit institutions</td>
<td>36 618 532</td>
<td>36 618 532</td>
<td>–</td>
<td>38 776 212</td>
<td>38 776 212</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to customers</td>
<td>5 729 546</td>
<td>5 729 546</td>
<td>–</td>
<td>3 026 742</td>
<td>3 026 742</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>2 113 579</td>
<td>2 126 572</td>
<td>(12 993)</td>
<td>11 231 625</td>
<td>10 969 802</td>
<td>261 823</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>7 954 630</td>
<td>7 954 630</td>
<td>–</td>
<td>7 870 136</td>
<td>7 870 136</td>
<td>–</td>
</tr>
<tr>
<td>Total unrecognized change in unrealized fair value</td>
<td>1 787 569</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8 483 230)</td>
</tr>
</tbody>
</table>

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.
Translation from the Russian original

25. Fair value measurement (continued)

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and floating rate financial instruments

For quoted debt instruments, fair values are calculated based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Loans to customers and financing of credit institutions under the program of extending loans to small and medium enterprises

Fair value of loans to customers and amounts due from credit institutions is determined by discounting future cash flows using the existing interest rates applicable to funds borrowed on similar conditions, credit risk and maturity.

Financial liabilities

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of financial liabilities is based on discounted cash flows using interest rates for financial instruments with similar maturity. For quoted debt securities, fair values are calculated based on quoted market prices.

Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing balances of Level 3 assets and liabilities which are recorded at fair value:

<table>
<thead>
<tr>
<th></th>
<th>At January 1, 2015</th>
<th>Gains/(losses) recognized in the consolidated income statement</th>
<th>At December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>designated at fair</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>value through profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or loss</td>
<td>110 815</td>
<td>36 478</td>
<td>157 000</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td>23 000</td>
<td>–</td>
<td>23 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133 815</strong></td>
<td><strong>36 478</strong></td>
<td><strong>157 000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>At January 1, 2016</th>
<th>Gains/(losses) recognized in the consolidated income statement</th>
<th>At December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>designated at fair</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>value through profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or loss</td>
<td>304 293</td>
<td>(5 919)</td>
<td>298 374</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td>23 000</td>
<td>–</td>
<td>23 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>327 293</strong></td>
<td><strong>(5 919)</strong></td>
<td><strong>321 374</strong></td>
</tr>
</tbody>
</table>
Translation from the Russian original

25. Fair value measurement (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

During 2015 the Group acquired interests in companies engaged in production of high-tech composites, development and implementation of technologies for creation of inorganic compounds used in the sphere of innovative biopharmaceuticals, etc., some of which were under the projects approved by ANO Agency for Strategic Initiatives. These investments were measured initially at cost. As of December 31, 2016 and December 31, 2015, all equity interests were reflected in the Group’s consolidated statement of financial position based on appraiser’s report. The valuation was performed using the income approach where the weighted average cost of capital (WACC) calculated based on the value of debt and equity capital was used as a discount rate. The discount rate ranged from 20.01% to 21.77%. The revaluation loss on these assets, which are recognised in the consolidated income statement for the year ended December 31, 2016, amounts to RUB 5,919 thousand. The revaluation gain on these assets, which are recognised in the consolidated income statement for the year ended December 31, 2015, amounts to RUB 36,478 thousand.

The Group also has an investment of RUB 45,000 thousand in a company representing a recreation area on the bank of the Volga in Astrakhan Region. The investment was measured using the net asset value method. The fair value of this investment including impairment amounts to RUB 23,000 thousand. The measurement effect on the carrying amount of this investment is insignificant.

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

<table>
<thead>
<tr>
<th>Year</th>
<th>Realized gains/(losses)</th>
<th>Unrealized gains/(losses)</th>
<th>Total gains/(losses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>26</td>
<td>(5,919)</td>
<td>(5,919)</td>
</tr>
<tr>
<td>2015</td>
<td>36,478</td>
<td>36,478</td>
<td>36,478</td>
</tr>
</tbody>
</table>

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>Carrying amount</th>
<th>Valuation technique</th>
<th>Unobservable inputs</th>
<th>Range (weighted average value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets designated at fair value through profit or loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to the share capital</td>
<td>298,374</td>
<td>Discounted cash flows</td>
<td>Weighted average cost of capital</td>
<td>100%</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td></td>
<td>Net asset method</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
25. Fair value measurement (continued)

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions (continued)

<table>
<thead>
<tr>
<th>December 31, 2015</th>
<th>Carrying amount</th>
<th>Valuation technique</th>
<th>Unobservable inputs</th>
<th>Range (weighted average value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets designated at fair value through profit or loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to the share capital</td>
<td>109 983</td>
<td>Net asset method Discounted cash flows</td>
<td>Not applicable</td>
<td>50%</td>
</tr>
<tr>
<td>Contribution to the share capital</td>
<td>194 310</td>
<td>Discounted cash flows</td>
<td>Weighted average cost of capital</td>
<td>50%</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to the share capital</td>
<td>23 000</td>
<td>Net asset method</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Reconciliation of classes of financial instruments with measurement categories

In accordance with IAS 39 “Financial Instruments: Recognition and Measurement” the Group classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

At the same time, in accordance with IFRS 7 “Financial Instruments: Disclosures” the Group discloses different classes of financial instruments.
25. **Fair value measurement (continued)**

The table below shows reconciliation of classes of financial assets with the above measurement categories as of December 31, 2016:

<table>
<thead>
<tr>
<th>Financial assets at fair value through profit or loss</th>
<th>Loans and receivables</th>
<th>Financial assets available for sale</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>11 770 876</td>
<td>-</td>
<td>11 770 876</td>
</tr>
<tr>
<td>Financial asset at fair value through profit and loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Corporate bonds (banks)</td>
<td>607 263</td>
<td>-</td>
<td>607 263</td>
</tr>
<tr>
<td>- Russian Federal bonds (OFZ)</td>
<td>209 514</td>
<td>-</td>
<td>209 514</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>67 904</td>
<td>-</td>
<td>67 904</td>
</tr>
<tr>
<td>- Financial assets at fair value through profit or loss, at initial recognition</td>
<td>298 374</td>
<td>-</td>
<td>298 374</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>5 587 960</td>
<td>-</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</td>
<td>-</td>
<td>70 630 225</td>
<td>70 630 225</td>
</tr>
<tr>
<td>Loans to customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Small business lending</td>
<td>-</td>
<td>9 548 050</td>
<td>9 548 050</td>
</tr>
<tr>
<td>- Corporate lending and finance lease receivables</td>
<td>-</td>
<td>5 515 457</td>
<td>5 515 457</td>
</tr>
<tr>
<td>Investment financial assets available for sale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Corporate bonds</td>
<td>-</td>
<td>-</td>
<td>7 496 256</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>-</td>
<td>-</td>
<td>1 517 652</td>
</tr>
<tr>
<td>- Eurobonds issued by Russian entities</td>
<td>-</td>
<td>-</td>
<td>123 860</td>
</tr>
<tr>
<td>- Promissory notes</td>
<td>-</td>
<td>-</td>
<td>3 540</td>
</tr>
<tr>
<td>- Contribution to other companies' share capital</td>
<td>-</td>
<td>-</td>
<td>23 000</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td>113 399 931</td>
<td>6 749 256</td>
<td>118 140 388</td>
</tr>
<tr>
<td><strong>Non-financial assets</strong></td>
<td></td>
<td>5 040 457</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>118 440 388</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
#### 25. Fair value measurement (continued)

The table below shows reconciliation of classes of financial assets with the above measurement categories as of December 31, 2015:

<table>
<thead>
<tr>
<th>Financial assets at fair value through profit or loss</th>
<th>Loans and receivables</th>
<th>Financial assets available for sale</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4,916,178</td>
<td>-</td>
<td>4,916,178</td>
</tr>
<tr>
<td>Financial asset at fair value through profit and loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Corporate bonds (banks)</td>
<td>3,541,990</td>
<td>-</td>
<td>3,541,990</td>
</tr>
<tr>
<td>- Russian Federal bonds (OFZ)</td>
<td>410,732</td>
<td>-</td>
<td>410,732</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>160,212</td>
<td>-</td>
<td>160,212</td>
</tr>
<tr>
<td>- Eurobonds issued by Russian and foreign entities</td>
<td>367,629</td>
<td>-</td>
<td>367,629</td>
</tr>
<tr>
<td>- Financial assets at fair value through profit or loss, at initial recognition</td>
<td>304,294</td>
<td>-</td>
<td>304,294</td>
</tr>
<tr>
<td><strong>Financing of credit institutions under the program of extending loans to small and medium enterprises and other deposits with credit institutions</strong></td>
<td>-</td>
<td>87,281,384</td>
<td>87,281,384</td>
</tr>
<tr>
<td><strong>Derivative financial instruments</strong></td>
<td>8,225,725</td>
<td>-</td>
<td>8,225,725</td>
</tr>
<tr>
<td>Loans to customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Small business lending</td>
<td>-</td>
<td>8,985,804</td>
<td>8,985,804</td>
</tr>
<tr>
<td>- Corporate lending and finance lease receivables</td>
<td>-</td>
<td>421,369</td>
<td>421,369</td>
</tr>
<tr>
<td><strong>Investment financial assets available for sale</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Corporate bonds</td>
<td>-</td>
<td>-</td>
<td>3,676,883</td>
</tr>
<tr>
<td>- Other debt securities</td>
<td>-</td>
<td>-</td>
<td>50,443</td>
</tr>
<tr>
<td>- Promissory notes</td>
<td>-</td>
<td>-</td>
<td>4,829,782</td>
</tr>
<tr>
<td>- Contribution to other companies’ share capital</td>
<td>-</td>
<td>-</td>
<td>23,000</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td><strong>123,195,425</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-financial assets</strong></td>
<td></td>
<td></td>
<td><strong>4,124,581</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>127,320,006</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All financial liabilities of the Group are carried at amortised cost, except derivative financial instruments.
26. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets not derecognized in their entirety

The table below provides a summary of the financial assets transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as of December 31, 2016:

<table>
<thead>
<tr>
<th>Financial assets at fair value through profit or loss</th>
<th>Russian Federation bonds (OFZ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred financial asset</td>
<td>2016</td>
</tr>
<tr>
<td>Carrying amount of assets</td>
<td></td>
</tr>
<tr>
<td>Repo agreements</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Total</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Carrying amount of associated liabilities</td>
<td></td>
</tr>
<tr>
<td>Repo agreements</td>
<td>5 252 984</td>
</tr>
<tr>
<td>Total</td>
<td>5 252 984</td>
</tr>
<tr>
<td>Net position</td>
<td>334 976</td>
</tr>
</tbody>
</table>

As of December 31, 2016, financial assets that were not derecognized included only Russian Federation bonds transferred under repurchase agreements with credit institutions (Notes 6 and 16).

As of December 31, 2015, there were no transferred financial assets not derecognized in their entirety.

Repurchase agreements

The securities sold under repurchase agreements are transferred to a third party, and the Group receives cash in exchange or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

Transferred financial assets not derecognized in their entirety

As of December 31, 2016, the fair value of securities at fair value through profit of loss sold under repurchase agreements was RUB 5 587 960 thousand.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as of December 31, 2016 as amounts due to credit institutions for a carrying amount of RUB 5 252 984 thousand.
Translation from the Russian original

### 27. Offsetting of financial instruments

The tables below show the Group’s financial assets offset against financial liabilities in the statement of financial position as well as the consequences of the enforceable master netting agreements and similar agreements which do not result in an offset in the consolidated statement of financial position:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th></th>
<th>Financial instruments</th>
<th>Cash collateral received</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross amount of recognised financial assets</strong></td>
<td></td>
<td>Gross amount of recognised financial liabilities offset in the statement of financial position</td>
<td>Gross amount of financial assets recognised in the statement of financial position</td>
<td>Related amounts not offset in the statement of financial position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repo agreements</td>
<td>5 252 984</td>
<td>0</td>
<td>5 252 984</td>
<td>(5 252 984)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 252 984</td>
<td>0</td>
<td>5 252 984</td>
<td>(5 252 984)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th></th>
<th></th>
<th></th>
<th>Financial instruments</th>
<th>Cash collateral received</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross amount of recognised financial assets</strong></td>
<td></td>
<td>Gross amount of recognised financial liabilities offset in the statement of financial position</td>
<td>Gross amount of financial assets recognised in the statement of financial position</td>
<td>Related amounts not offset in the statement of financial position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>14 666 601</td>
<td>(6 440 876)</td>
<td>8 225 725</td>
<td>0</td>
<td></td>
<td></td>
<td>8 225 725</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14 666 601</td>
<td>(6 440 876)</td>
<td>8 225 725</td>
<td>0</td>
<td></td>
<td></td>
<td>8 225 725</td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>6 440 876</td>
<td>(6 440 876)</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6 440 876</td>
<td>(6 440 876)</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>
28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 24 Risk Management for the Group’s contractual undiscounted repayment obligations.

<table>
<thead>
<tr>
<th></th>
<th>Within one year</th>
<th>More than one year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>11 770 876</td>
<td>–</td>
<td>4 916 178</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>81 238</td>
<td>57 000</td>
<td>138 238</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>884 681</td>
<td>298 374</td>
<td>1 183 055</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>5 587 960</td>
<td>–</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>–</td>
<td>–</td>
<td>8 225 725</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>3 877 953</td>
<td>11 185 554</td>
<td>15 063 507</td>
</tr>
<tr>
<td>Investment financial assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- available for sale</td>
<td>8 518 672</td>
<td>645 636</td>
<td>9 164 308</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>–</td>
<td>161 247</td>
<td>161 247</td>
</tr>
<tr>
<td>Current income tax assets</td>
<td>16 332</td>
<td>–</td>
<td>66 341</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>–</td>
<td>677 301</td>
<td>677 301</td>
</tr>
<tr>
<td>Other assets</td>
<td>2 689 257</td>
<td>1 358 082</td>
<td>4 047 339</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39 029 129</strong></td>
<td><strong>79 411 259</strong></td>
<td><strong>118 440 388</strong></td>
</tr>
</tbody>
</table>

**Amounts due to the Central Bank**

- 74 441
- 38 834 316
- 38 908 757
- 2 627 551
- 33 457 713
- 36 085 264

**Amounts due to credit institutions**

- 18 688 150
- 17 930 382
- 36 618 532
- 19 872 143
- 18 904 069
- 38 776 212

**Amounts due to customers**

- 5 729 546
- 2 007 600
- 5 729 546
- 3 026 742
- 11 231 625

**Debt securities issued**

- 105 879
- 2 113 579
- 9 144 314
- 2 087 311

**Deferred income tax liabilities**

- 835 047
- 1 148 967
- 1 984 014
- 591 631
- 673 220

**Other liabilities and provisions**

- 446 938
- 7 507 692
- 7 954 630
- 445 716
- 7 424 420

**Subordinated loan**

- 25 880 101
- 67 428 957
- 93 309 058
- 35 708 097
- 62 710 605
- 98 418 702

**Net position**

- 13 149 028
- 11 982 302
- 25 131 330
- (11 925 712)
- 40 827 016
- 28 901 304

29. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Russian Federation acting through the RF Government controls the Group’s activities.

The Russian Federation, acting through state agencies and other institutions, directly and indirectly controls and significantly influences a large number of entities (collectively referred to as “state-related entities”). The Group performs the following banking transactions with these entities: lending, attracting deposits, cash and settlement operations, exchange operations, providing guarantees, and transactions with securities and derivatives. Transactions with state-related entities constitute a significant part of the Group’s operations.
Translation from the Russian original

29. Related party transactions (continued)

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group of the Parent company (SME Corporation Group)</td>
<td>Russian Federation</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>–</td>
<td>11 068 216</td>
</tr>
<tr>
<td>Obligatory reserves with the Central Bank</td>
<td>–</td>
<td>136 238</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>–</td>
<td>209 514</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss, pledged under repo agreements</td>
<td>–</td>
<td>5 587 960</td>
</tr>
<tr>
<td>Interest income on financial assets at fair value through profit or loss</td>
<td>–</td>
<td>475 251</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises at January 1, gross</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts placed during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts repaid during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other movements</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises at December 31, gross</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less: allowance for impairment</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Financing of credit institutions under the program of extending loans to small and medium enterprises at December 31, net</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest income on amounts due from banks and cash equivalents</td>
<td>–</td>
<td>26 694</td>
</tr>
<tr>
<td>Investment financial assets - available for sale</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest income on investment financial assets</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers at January 1, gross</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans issued during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans repaid during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other movements</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers at December 31, gross</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less: allowance for impairment</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans to customers at December 31, net</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest income on loans</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other assets</td>
<td>–</td>
<td>54 528</td>
</tr>
<tr>
<td>Current accounts of banks</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to banks at January 1</td>
<td>–</td>
<td>36 085 264</td>
</tr>
<tr>
<td>Amounts received during the year</td>
<td>–</td>
<td>59 395 000</td>
</tr>
<tr>
<td>Amounts repaid during the year</td>
<td>–</td>
<td>(56 371 000)</td>
</tr>
<tr>
<td>Other movements</td>
<td>–</td>
<td>(200 507)</td>
</tr>
<tr>
<td>Change in classification of counterparties</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Change of shareholder</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due to banks at December 31</td>
<td>–</td>
<td>38 908 757</td>
</tr>
<tr>
<td>Subordinated loan at January 1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts received during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts repaid during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other movements</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Change of shareholder</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Subordinated loan at December 31</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest expense on amounts due to banks and subordinated loan</td>
<td>–</td>
<td>4 538 853</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>–</td>
<td>24 484</td>
</tr>
<tr>
<td>Customers’ current accounts</td>
<td>–</td>
<td>66 541</td>
</tr>
<tr>
<td>Debt securities issued at January 1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities issued during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities repaid during the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other movements</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities issued at December 31</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes to the Consolidated Financial Statements for 2016
29. Related party transactions (continued)

<table>
<thead>
<tr>
<th>Group of the Parent company (SME Corporation Group)</th>
<th>Russian Federation</th>
<th>State-controlled entities</th>
<th>Group of the Parent company (Vnesheconombank Group)</th>
<th>Russian Federation</th>
<th>State-controlled entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments and contingencies</td>
<td>–</td>
<td>–</td>
<td>2 369 527</td>
<td>97 310</td>
<td>–</td>
</tr>
<tr>
<td>Net fee and commission income/(expense)</td>
<td>–</td>
<td>(267)</td>
<td>3 632</td>
<td>(55 082)</td>
<td>(257)</td>
</tr>
<tr>
<td>Net other operating income/(expense)</td>
<td>–</td>
<td>6 751</td>
<td>(3 522)</td>
<td>37 901</td>
<td>6 275</td>
</tr>
</tbody>
</table>

Compensation to key management personnel comprises the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and other short-term benefits</td>
<td>183 915</td>
<td>207 191</td>
</tr>
<tr>
<td>Social security costs and mandatory contributions to the pension fund</td>
<td>19 582</td>
<td>34 337</td>
</tr>
<tr>
<td><strong>Total key management personnel compensation</strong></td>
<td><strong>203 497</strong></td>
<td><strong>241 528</strong></td>
</tr>
</tbody>
</table>

30. Subsidiaries

The following major subsidiaries are included in the consolidated financial statements of the Group:

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Interest / voting, %</th>
<th>Principal place of business</th>
<th>Country of incorporation</th>
<th>Nature of operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMF for Long-term Direct Investments “MIR”</td>
<td>100%</td>
<td>RF</td>
<td>Russia</td>
<td>Financing activity</td>
</tr>
<tr>
<td>OJSC “SME Leasing”</td>
<td>100%</td>
<td>RF</td>
<td>Russia</td>
<td>Financing activity</td>
</tr>
</tbody>
</table>

31. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group’s capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the Central Bank in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No essential changes were made in the objectives, policies and processes from the previous years.

The Central Bank capital adequacy ratio (N1)

The Central Bank requires banks to maintain a capital adequacy ratio of at least 10% of risk-weighted assets, computed based on RAL. As of December 31, 2016 and 2015, the Group’s capital adequacy ratio on this basis was met.
Translation from the Russian original

31. Capital adequacy (continued)

Capital adequacy ratio under 1988 Basel Capital Accord

The Group's capital adequacy ratio, computed in accordance with 1988 Basel Capital Accord, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2016 and 2015, comprised:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 capital</td>
<td>25 131 330</td>
<td>28 901 304</td>
</tr>
<tr>
<td>Tier 2 capital</td>
<td>7 954 630</td>
<td>7 870 136</td>
</tr>
<tr>
<td>Total capital</td>
<td>33 085 960</td>
<td>36 771 440</td>
</tr>
<tr>
<td>Risk weighted assets</td>
<td>121 100 556</td>
<td>143 909 214</td>
</tr>
<tr>
<td>Tier 1 capital adeq.</td>
<td>20.8%</td>
<td>20.1%</td>
</tr>
<tr>
<td>Total capital ratio</td>
<td>27.3%</td>
<td>25.6%</td>
</tr>
</tbody>
</table>

D.Y. Golovanov
Chairman of the Management Board

T.V. Boyazytova
Acting Chief Accountant

March 1, 2017